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# BANK OF CANADA

ANNUAL REPORT OF  
THE GOVERNOR TO THE  
MINISTER OF FINANCE

AND STATEMENT OF ACCOUNTS

FOR THE YEAR **1961**



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BANK OF CANADA *Ottawa*

February 28th, 1962.

The Hon. Donald M. Fleming, Q.C., M.P.,  
Minister of Finance,  
Ottawa, Ontario.

Dear Sir,

In accordance with the provisions  
of the Bank of Canada Act I am transmitting  
herewith my report for the year 1961 and  
a statement of the Bank's accounts for this  
period which is signed and certified in the  
manner prescribed in the by-laws of the Bank.

Yours very truly,

*H. Hasinsky*  
Governor



# BANK OF CANADA

## Report of the Governor—1961

On July 24, 1961 the Board of Directors of the Bank of Canada announced my appointment as Governor to succeed Mr. J. E. Coyne, who resigned on July 13. On August 1, 1961 I issued the following statement:

“I have been greatly encouraged by the many public expressions of goodwill which have appeared since the announcement of my appointment as Governor of the Bank of Canada. I have decided to make public at this time my views on certain matters connected with the administration of this office. These views had been made known to the Directors and to the Government in the following form when my appointment was being considered.

I believe that it is essential that the responsibilities in relation to monetary policy should be clarified in the public mind and in the legislation. I do not suggest a precise formula but have in mind two main principles to be established: (1) in the ordinary course of events, the Bank has the responsibility for monetary policy, and (2) if the Government disapproves of the monetary policy being carried out by the Bank it has the right and the responsibility to direct the Bank as to the policy which the Bank is to carry out.

The first principle is designed to ensure that the Bank has the degree of independence and responsibility necessary if it is, in the language of the Bank of Canada Act, “to regulate credit and currency in the best interests of the economic life of the nation”. To discharge this duty the Bank must be sufficiently independent and responsible in its operations to be able to withstand day-to-day pressures from any source. But in the longer run, if there should develop a serious and persistent conflict between the views of the Government and the views of the central bank with regard to monetary policy which, after prolonged and conscientious efforts on both sides, cannot be resolved, the Government should be able formally to instruct the Bank what monetary policy it wishes carried out and the Bank should have the duty to comply with these instructions. The exercise of this authority by Government would place on Government direct responsibility for the monetary policy to be followed. If this policy, as communicated to the Bank, was one which the Governor felt he could not in good conscience

carry out, his duty would be to resign and to make way for someone who took a different view.

Amendments to the Bank of Canada Act would presumably be required to deal with these points. If, however, it were agreed that the respective responsibilities should be of the general character I have indicated, there should be little difficulty in regard to the precise nature and timing of the necessary changes.

I wish, secondly, to place on record some of my views on the way in which monetary policy fits in to other public policies affecting the economic and financial welfare of the nation. I take it that the broad aim of the community is to attain, to the maximum extent possible, certain generally accepted objectives: high level employment, price stability and sustained economic growth. A flexible monetary policy is an essential element in the total blend of policies directed to these ends. In a situation characterized by large unemployment and unused capacity, monetary policy should be directed to encouraging the use of credit. On the other hand, if the economy is approaching a condition of full stretch, policy should be directed towards discouraging the use of credit.

Too much reliance on monetary policy either as a restraining or a stimulating factor would, however, lead to unsatisfactory self-defeating results. If one were to try to control the excesses of a boom period through monetary policy without adequate support from appropriate fiscal, debt management and other economic policies of Government, one would run the risk of creating great strains in the financial system in the form of intolerably high interest rates and disorganization in capital markets. On the other hand, the precise part that monetary policy can appropriately play in stimulating economic expansion is necessarily influenced by the part being played by the concurrent fiscal, debt management and other economic policies of Government. The central bank has an important part to play in influencing the trend of interest rates in a direction appropriate to the economic situation. But an attempt on its part to impose a level of interest rates which appeared unrealistic to the market would impair confidence in the value of the currency and present a serious obstacle to the orderly flow of funds through the capital market.

What is said in the previous paragraph is not meant to deprecate the contribution that monetary policy can make towards attaining the broad economic objectives of high-level employment, price stability and sustained economic growth. On the contrary, it is meant to underline the need for a careful and consistent meshing together of all the various aspects of financial

policy and general economic policy in the effort to attain these objectives while avoiding undue strains in particular sectors. In particular, since monetary policy, fiscal policy and debt management policy are interdependent and to some extent inter-changeable, there has to be a high degree of coordination to ensure that the blend or "mix" of these policies is purposefully directed towards attaining the over-all economic objectives of the community.

The views expressed above regarding the respective responsibilities of Government and Bank for monetary policy and the need for close coordination of monetary, fiscal, debt management and other economic policies point to the great importance of close and continuous contact between the Bank and the Government. I shall wish to play my full part in achieving the close working relationship with the Minister of Finance which is indispensable if the Bank is to discharge its responsibilities in a satisfactory way. I would hope to have frequent contacts with the Minister of Finance of the same character as I have had over the past years in my capacity of Executive Director of the International Monetary Fund and International Bank. In addition, in order to ensure beyond doubt that continuing high importance is attached to maintaining lines of communication, and even though such precaution may now seem unnecessary, consideration should be given to setting up a routine procedure for regular meetings at fairly frequent intervals between the Minister of Finance and the Governor."

On the same day the Honourable Donald M. Fleming, Minister of Finance, issued the following statement:

"The views expressed by the Governor of the Bank of Canada in his statement today regarding the relationships between the monetary and fiscal authorities are in harmony with those of the Government and were known to the Government prior to his appointment. I also share the Governor's views respecting the inter-relationship between monetary, fiscal and debt management policy and the need for a judicious and co-ordinated combination of measures in all three fields in the promotion of national economic policy. Indeed, I drew attention to the necessity for this sort of co-operative action in my Budget Speech on June 20th. It follows, therefore, that regular and close consultation between the Governor and the Minister of Finance is of the essence and Mr. Rasminsky's views in this regard are warmly welcomed. In fact, such consultation between myself and the Governor is already taking place."

\* \* \*

At the time at which I took office the level of economic activity in Canada was rising, but there was a great deal of unemployment and unused plant capacity and room for a large increase in employment and output before there would be any prospect of the economy pressing on its physical limits in an inflationary way. In these circumstances it was appropriate that monetary policy should be directed towards promoting conditions favourable to the use of credit as one method of stimulating the growth of spending on goods and services. It was also appropriate that so far as possible the emerging credit demands of the economy should be satisfied from domestic sources (rather than by inflows of capital from abroad) and without this giving rise to a premature tightening of credit conditions or fears of instability in financial markets.

The principal means open to the Bank of Canada of influencing credit conditions in this way was to ensure that the chartered banks had enough cash reserves to encourage them to follow a strong lending policy and to permit them to expand their total assets in a manner conducive to relative ease and stability in financial markets. This was done, and the growth in the Canadian assets of the chartered banks that was underway when I took office continued through the rest of the year. From late July to year-end the chartered banks increased their general business and personal loans in Canada substantially and added about \$400 million to their holdings of Government of Canada bonds; they were also able to maintain a ratio of liquid assets (cash, treasury bills and day-to-day loans) to deposit liabilities of 18½-19 per cent, and at the end of the year their combined holdings of these liquid assets were about \$500 million in excess of the agreed minimum ratio of 15 per cent.

The expansion in employment and output which got under way early in 1961 and continued throughout the year gave rise to an appreciable increase in the demand for credit from businesses and individuals. In addition there was a sharp increase in borrowing by the Government of Canada and the provincial governments. Notwithstanding these developments credit conditions did not tighten in respect of either the cost or the availability of borrowed money. Following a general decline of interest yields in June, yields on long-term market bonds were stable or declined slightly during the second half of the year, yields on medium and short-term bonds declined further, and the yield on Government treasury bills was relatively stable with some rise in the final weeks of the year. The chartered banks and other lending institutions pursued active lending policies in the provision of working-capital loans to business and of consumer credit, and mortgage funds were also in comparatively ample supply.

In June 1961 the downward movement in interest yields on longer-term bonds in Canada and a concurrent rise in the United States had narrowed sharply the interest-rate spreads between the two markets which had existed earlier in the year. There was a moderate further narrowing of these interest-rate spreads in the second half of the year, and during this period the spreads were well below those which had prevailed since the first half of 1959. Net sales of Canadian issues in the United States market in 1961 were small after allowing for deliveries of issues negotiated earlier.

The increase in chartered bank assets in 1961 was of course accompanied by a similar increase in their deposit liabilities. For the full year the increase was about \$1,165 million or about 9½ per cent, a more rapid rate of growth than in recent years but less than in 1958 or 1955. The principal components of the increase by type of deposit liability were: personal savings deposits up \$400 million (5½ per cent), corporate notice deposits up \$350 million (60 per cent), Government of Canada deposits up \$80 million (15 per cent) and other deposits—these being mainly working balances of businesses and individuals—up \$335 million (9 per cent).

The large increase in corporate notice deposits appears to have been associated with the practice adopted by the banks in January 1961 of paying interest rates on deposit receipts which were higher than the comparable treasury bill yields. Substantial funds that would otherwise presumably have been invested by corporations directly in short-term securities of the Government and other borrowers were instead left on notice deposit with the chartered banks, and the banks rather than the corporations tended to acquire the securities. Since the short-term securities that the notice-deposit holders would otherwise have acquired were almost equally liquid, the part of the monetary expansion represented by the growth in corporate notice deposits—nearly one-third of the total—probably added little to the over-all liquidity of the economy.

\* \* \*

Over the years a growing economy needs a growing stock of money, and this need can, in my judgment, best be met by a flexible monetary policy which permits the money supply to change at different rates in different periods so that it makes a contribution to achieving credit conditions which are appropriate to changing economic circumstances. I believe that the monetary expansion that occurred in the second half of 1961 was appropriate in the circumstances of the time and that it was of material assistance in maintaining credit conditions in Canada which encouraged and sustained this phase of economic expansion.

Without it, credit would have been less readily available and its cost would have been greater, and the desired growth in spending on goods and services in Canada would have been retarded. Moreover, the easing in credit conditions in Canada relative to those in the United States helped in removing the upward pressure on the foreign exchange value of the Canadian dollar and facilitated the movement of the exchange rate to a more appropriate level.

By improving the international competitive position of Canadian industry, the recent decline in the exchange value of the Canadian dollar provides our economy with a special opportunity to attack the major problems of adjustment that have confronted us since the intense resource development boom came to an end several years ago. If full advantage is to be taken of the present opportunity to achieve a significant increase in output and employment in the exporting industries and in import-competing industries, it is clearly essential that a fresh upward thrust of domestic prices and costs should be avoided and that all sectors of the economy should actively seek out and vigorously exploit the opportunities for new business now available.

Fresh evidence of the fact that we live in a highly and increasingly competitive world comes to light almost daily. Until a very few years ago the economic efficiency of the United States relative to other countries was thought to be so great that the presumed inability of other countries to compete effectively with the United States was regarded by many as the principal international economic problem of the western world—the so-called “dollar problem”. Today the “dollar problem” has disappeared and the United States has found it necessary to address itself with vigour to the problem of increasing substantially its basic economic efficiency. Our other main trading partner, the United Kingdom, is similarly engaged. We in Canada cannot escape this world trend, and the real determinant of our prosperity and welfare will be our ability to compete in a world of rapidly rising standards of economic productivity and efficiency.

Good economic performance depends both on financial policies and on the basic elements of economic efficiency—a well-trained, energetic and adaptable working population, dynamic business leadership, the imaginative application of modern technology, good marketing practices, and perhaps above all the determination to be competitive. These basic factors need an environment of appropriate financial policies if they are to make their maximum contribution to the achievement of our economic goals. But if the basic factors themselves are missing, their absence cannot be adequately compensated by variations in the

cost and availability of credit, or by variations in the foreign exchange rate, or indeed by any kind of purely financial management.

These considerations do not of course argue for complacency about Canada's financial machinery or the quality of its management. Here, as in respect of other aspects of the economic process, a critical approach will be rewarding. I therefore welcome the appointment last October of a Royal Commission on Banking and Finance under the Chairmanship of the Honourable Dana Porter, Chief Justice of Ontario. The terms of reference of the Commission are:

- “(a) to enquire into and report upon the structure and methods of operation of the Canadian financial system, including the banking and monetary system and the institutions and processes involved in the flow of funds through the capital market; and
- (b) to make recommendations
  - (i) for the improvement of the structure and operations of the financial system and, more particularly,
  - (ii) concerning the Bank Act, the Bank of Canada Act, the Quebec Savings Banks Act, and other relevant federal legislation.”

These terms of reference are sufficiently broad to provide for the most comprehensive review of the functioning of the Canadian financial system since the proceedings of the Macmillan Commission in 1933.

I expect to appear before the Royal Commission on Banking and Finance later this year to give evidence on the role of monetary policy and on various other matters having to do with the operations of the Bank of Canada. I shall not attempt here to anticipate this evidence but there is one specific matter on which I wish to make a brief comment, and that is the method of determining the Bank rate. The Bank rate is the minimum rate at which the Bank of Canada is prepared to make advances to the chartered banks. Since November 1956 it has been set each week at a level one-quarter of one per cent above the average rate on accepted tenders at the weekly auction of Government of Canada three-month treasury bills. In recent years this method of determining Bank rate has given rise to a good deal of public discussion, and many and varied preferences for alternative methods have been expressed. Since becoming Governor I have given much consideration to this question and have discussed it with the chartered banks. I hope and expect that the views of interested parties will be made known

in evidence before the Royal Commission and it is my present intention to keep an open mind on the matter until all those with a major interest in it have had a chance to express their opinions.

\* \* \*

In concluding this section of my Report I wish to record, with great satisfaction, the re-appointment under Section 6(1) of the Bank of Canada Act of Mr. J. R. Beattie as Deputy Governor for a further period of seven years from January 1, 1962.

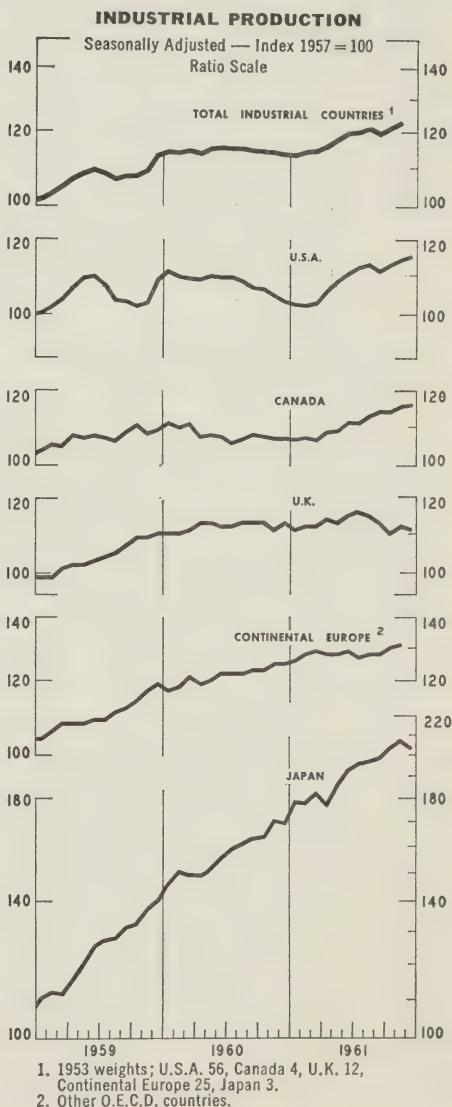
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The remainder of this Report reviews the more important economic and financial developments in 1961. The next section is concerned with the external economic environment and refers to economic conditions in the United States, the United Kingdom and other countries which have an important influence on economic conditions in Canada; it also refers to developments in international payments during the year and to the progress of international cooperation in the financial field. The Report then turns to developments in the Canadian economy and the changes which have occurred in Canada's balance of payments. The next section reviews in some detail financial developments in Canada in 1961. This is followed by the financial statement of the Bank of Canada in the form prescribed by the by-laws of the Bank and by other information on the Bank.

## The External Economic Environment

World economic activity resumed its upward course in 1961. Aggregate industrial production in the main industrial countries rose more than 8 per cent during the year and their total imports increased at least as rapidly, bringing about a renewed expansion of world trade.

The outstanding development of the year was the resumption of economic expansion in North America. The upsurge of industrial production in the United States which began in March was strong enough to recover within six months the entire ground lost during the recession. At the same time the earlier strong upward trend in industrial output in Continental Europe gave way to a period of relative stability which lasted until late in the year. In the United Kingdom production rose in the first half of the year but fell in the second half. In Japan rapid economic expansion continued in 1961. The fact that cycles of expansion and contraction have occurred at rather different times in different industrial regions has given rise to some problems of economic policy, but it has contributed to the stability of the world economy and is thus a welcome feature of the international economic scene.



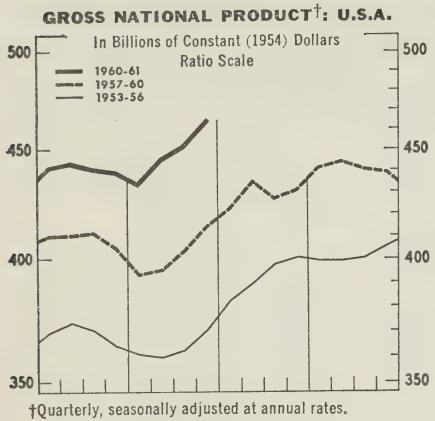
**ECONOMIC DEVELOPMENTS IN THE UNITED STATES.** The recovery which began in the United States early in 1961 quickly gathered momentum and by the second quarter total real output of goods and services had surpassed the peak rate of a year earlier. By the fourth quarter, output had risen a little over

7 per cent from the first quarter low, about the same rate of increase as in the similar periods of the two previous cyclical expansions. At the end of the year industrial production was running 13 per cent above the low point reached in February 1961 and 3½ per cent above the previous peak reached in January 1960.

The 1961 expansion in the United States drew strength from all major sectors of the economy with the exception of foreign trade. Current and projected government expenditures, particularly for defence, provided an

important impetus; consumer demand for durable goods showed considerable strength with automobile sales in the fourth quarter particularly buoyant; and business fixed investment turned up more quickly than after the 1957-58 recession. The swing from inventory liquidation to accumulation accounted for about 25 per cent of the over-all increase in Gross National Product between the first and last quarters of 1961, but inventory movements were relatively less important as a stimulating factor in 1961 than they had been in the comparable periods of the 1958 or 1954 recoveries.

As is usual in the early stages of a recovery period, productivity rose markedly and average hours of work per week increased; consequently employment, which had declined very little during the recession, rose less than output. Non-agricultural employment increased by 1.6 per cent in the course of 1961, and this rise was partly offset by a decline in employment in agriculture. However, the civilian labour force was no higher in December 1961 than it had been a year earlier and unemployment, seasonally adjusted, declined from just under 7 per cent of the civilian labour force to 6 per cent over this period. The improvement in productivity contributed to the maintenance of a high degree of price stability during the year. Wholesale prices fell slightly, somewhat higher prices for industrial raw materials being more than offset by declines in other categories.

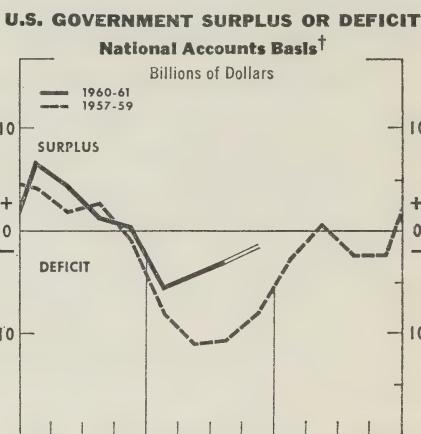


The consumer price index at the year-end was 0.5 per cent higher than at the end of 1960.

Partly as a result of increased defence expenditures and anti-recession programmes, the budgetary position of the Federal Government swung from a cash surplus of \$3.6 billion in calendar 1960 to an estimated cash deficit of \$6.8 billion in calendar 1961. For the fiscal year ending June 30, 1962, the cash deficit is estimated at \$8.5 billion, but the Administration's budget for the fiscal year ending June 30, 1963 calls for a cash surplus of \$1.8 billion. On the national accounts basis\*—a better measure of the impact of Federal Government transactions on the flow of income and spending—the budgetary position was approaching balance at the end of 1961.

A substantial increase in bank reserves permitted a considerably larger growth in bank assets than occurred in 1960, though it was not until late in the year that bank loans showed a strong cyclical expansion. Total deposits and currency increased by nearly 7 per cent during 1961. The treasury bill rate fluctuated between  $2\frac{1}{4}$  and  $2\frac{1}{2}$  per cent during most of the year and rose to  $2\frac{3}{4}$  per cent at the end of the year. Long-term rates declined slightly until May, rose in the summer months, and were relatively stable during the rest of the year.

A diminished outflow of short-term funds from the United States, along with a pick-up in foreign investment in the United States and substantial advance debt repayments by foreign governments, produced a marked improvement in the United States balance of payments position in the first half of 1961. The rising surplus on goods and services during this period was sufficient to cover not only Government foreign aid and military expenditures abroad, but also the net outflow of private long-term capital; the decline in gold and convertible currency holdings and increase in liquid dollar liabilities to foreigners was relatively small. However, during the second half of the year an increase in exports was more than offset by the higher level of imports resulting from domestic business recovery; Government expenditures abroad increased somewhat and towards the end of the year



†Quarterly, seasonally adjusted at annual rates.  
Estimate for fourth quarter 1961 is provisional.

\* For a brief description of the differences in the treatment of Government accounts on the national accounts basis and the conventional budgetary basis, see footnote on page 27.

there were some special temporary outflows of short-term funds. The balance of payments deficit as measured by United States statistics rose from \$0.3 billion in the first half of 1961 to \$2.1 billion in the second half of the year. For the year as a whole the decline in gold and convertible currency holdings and increase in liquid dollar liabilities to foreigners amounted to \$2.4 billion as compared with \$3.9 billion in 1960, \$3.7 billion in 1959 and \$3.5 billion in 1958.

It is officially stated that United States Government policy is directed towards combining fiscal, debt management and monetary measures in such a way as to create a favourable environment both for an increased flow of funds into private productive investment and a reduced outflow of short-term capital. The encouragement of productive investment is aimed at promoting the efficiency of United States industry in an effort to achieve more rapid growth without inflation and help restore equilibrium in the balance of payments. Other measures directed at these objectives include the proposed Trade Expansion Act which is designed to secure a further substantial reduction of trade barriers on a reciprocal basis.

**ECONOMIC DEVELOPMENTS IN OTHER COUNTRIES.** In most other parts of the world with which Canada has important trade connections, economic activity continued at a high level in 1961.

In the United Kingdom the easing of the pressure of demand on resources in the second half of 1960 was followed by a new surge of spending in the first half of 1961. Stimulated by a rising trend of employment and sharp increases in wage rates and by some easing in credit conditions, consumer expenditure rose strongly during this period. Private business investment expenditures continued to expand, housing outlays picked up in the second quarter, and government expenditures on both current and capital account ran at a high level. Exports rose somewhat in the first half of 1961, while imports declined as a result in part of a sharp reduction in the rate of inventory accumulation. The level of activity turned down about mid-year and declined for some months thereafter. Consumer spending was adversely affected by the rising trend of prices and the investment boom was levelling off. A number of measures of restraint were introduced to deal with the foreign exchange difficulties which had developed.

While the underlying balance of payments position of the United Kingdom had improved substantially by the early part of 1961 the current account remained in deficit despite the need for a surplus large enough to cover foreign aid commitments and the long-term export of capital. A large withdrawal of

short-term funds after the upward revaluation of the deutsche mark early in March led to a sharp fall in reserves in spite of large offsetting short-term credits from Continental central banks. In July the Government announced its intention to obtain substantial assistance from the International Monetary Fund; this assistance took the form of a drawing of \$1,500 million and a line of credit for a further \$500 million. At the same time certain sales and excise taxes were increased under recently acquired discretionary authority. Bank rate was raised from 5 to 7 per cent and banks were required to increase their Special Deposits at the Bank of England. Emphasis was placed upon the need to render the economy more competitive in order to achieve a lasting solution to the balance of payments problem. The Government urged a "pause" in wage and salary increases and stated that it intended to review the trend of Government expenditure with the object of bringing it into appropriate relationship with the resources likely to be available.

In Continental Europe a very high level of production and employment was maintained throughout 1961 although total industrial production did not rise much between March and the closing months of the year. Most European economies continued to expand during the year but in Germany and the Netherlands, where the pressure of demand on productive resources had been particularly severe, industrial production showed some tendency to decline. Investment remained the most dynamic element of demand in 1961, though it grew less rapidly than in the early stages of the boom, and consumer expenditures advanced in response to rapidly rising incomes. Investment in inventories fell after the opening months of the year and this was reflected in a flattening out in imports. Internal signs of strain became more apparent. The acute shortage of labour exerted strong upward pressure on wage rates in many European countries; wage increases were greater in 1961 than in the previous year and tended to exceed productivity gains by a wide margin, particularly since these were in most cases not as great as in 1960. While much of the burden of rising labour costs was absorbed by a decline in profit margins, prices rose more rapidly in Europe than in North America.

External payments positions in Continental Europe generally remained strong during 1961. Export demand continued to be buoyant and the merchandise accounts of Germany and France in particular were very strong, though some reduction in German export orders became evident as the year progressed. In addition, some Continental countries continued to attract very large sums of short-term capital in 1961. The financial policy of some of these countries was directed toward offsetting and discouraging this inflow, and certain governments

paid off long-term debts in advance of maturity and encouraged capital outflows in other ways.

The upturn in world industrial production in 1961 resulted in greater consumption of raw materials but this was not reflected in any sustained increase in commodity prices; at the end of 1961 their average level was no higher than a year earlier. The prices of a broad range of industrial materials rose in the early part of the year but subsequently weakened, due in part to the reduction of inventories in the United Kingdom and Continental Europe. Throughout 1961 the prices of most foodstuffs were weak; only cereals showed some strength due mainly to short supplies of certain grades in Western Europe, the entry of mainland China as a buyer on a substantial scale in the world grain market, and smaller crops in Western Canada and adjoining areas of the United States.

While the exports of the countries which depend mainly on primary products were in total higher in 1961, the benefits were unevenly distributed. In many less-developed countries reserves fell further, exchange difficulties continued, and controls on imports were maintained in spite of a larger flow of aid from the United States, from European countries and from international institutions. The International Development Association, which was established to supplement the work of the International Bank for Reconstruction and Development by providing capital at lower cost and with much longer repayment periods, extended its first credits in 1961 and by the end of the year had made 18 loans totalling \$181 million to 10 countries. At the same time the importance for the less-developed countries of adequate export opportunities became more widely recognized and proposals were made during the year to reduce barriers to the sale of their products and to promote a greater degree of stability in their export earnings.

**DEVELOPMENTS IN INTERNATIONAL PAYMENTS.** The speculative pressure against the United States dollar which was a marked feature of the latter part of 1960 subsided in 1961 and the price of gold in the London market remained at more normal levels than those reached in the previous year. The outflow of short-term capital from the United States remained large in 1961 but the international financial position was more affected by the flows of funds between European centres which followed the German revaluation. In March, Germany increased the value of its currency by 5 per cent to help correct its strong surplus position and its domestic inflationary pressures, and the Netherlands revalued its currency by a similar amount immediately thereafter. These steps were followed by an outbreak of speculation in favour of certain European currencies

and mainly at the expense of sterling. In a move to help restore order in the exchange markets, an announcement was issued after a meeting of the Bank for International Settlements in Basle in mid-March to the effect that the various central banks were cooperating closely in the exchange markets and no further changes in exchange rates were anticipated. The short-term financial assistance provided to the United Kingdom under the so-called "Basle arrangements" amounted to more than \$900 million. Despite this support the United Kingdom's reserves had fallen sharply by the end of July when the Government embarked on the wide-ranging programme of fiscal, monetary and other measures which has already been mentioned.

In the following months there were very large return flows of short-term capital to London and sterling strengthened on the exchanges. Bank rate was reduced from 7 per cent to 6 per cent in two steps in October and November. By year-end the United Kingdom had repaid all but \$50 million of the Basle credits (this amount being funded by a three-year loan from Switzerland), and \$420 million of the \$1,500 million drawing from the International Monetary Fund. At the end of 1961 the United Kingdom's reserves were \$865 million higher than they had been at the end of July.

The international financial disturbances of the past two years have involved speculation against both the major reserve currencies used by the world economy, the United States dollar and sterling. They have arisen in part because in recent years both the United States and the United Kingdom have earned insufficient exchange in trade and invisible transactions to finance their defence commitments overseas, to provide resources to countries in the course of development and to cover their investment of long-term capital abroad. The counterpart of the basic deficits of the United States and the United Kingdom is to be found in the continued surplus position of Continental Europe; the increase in the reserves of these countries would have amounted to about \$4 billion in 1961 in the absence of advance debt repayments to the United States and the United Kingdom and the extension of credit through the International Monetary Fund.

The steps taken by both deficit and surplus countries to remedy this basic imbalance in the world payments situation may be expected to have important consequences in time, although it will be difficult to distinguish in the short-run between the effects of underlying trends and cyclical or sporadic influences. The reduction in the trade surplus of the United States during 1961 was strongly influenced by cyclical factors; on the other hand, the underlying position of the United States benefited from the stability of its costs and prices compared with the upward trend apparent in Europe, as well as from the German and Dutch

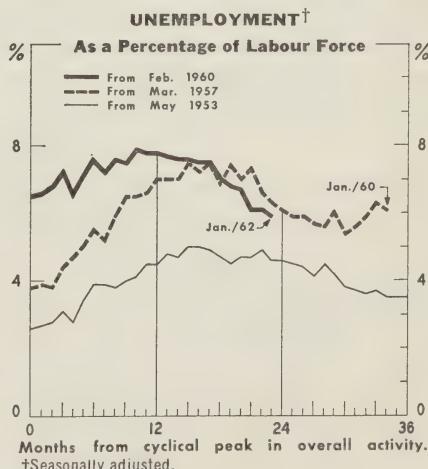
revaluations. The ultimate restoration of equilibrium in international payments relationships will depend upon the ability of the deficit countries to bring about a continuing improvement in their competitive positions and on the pursuit of appropriate policies by all countries in the fields of aid, long-term capital flows and access to domestic markets.

It is gratifying that the search for solutions to these basic problems has not been disrupted by any abandonment of convertibility under the impact of the shocks experienced in the past two years. This result must be attributed in substantial part to the unprecedented degree of consultation and cooperation which has taken place among the main industrial countries. Mention has already been made of the Basle agreement. An increasingly valuable contribution was made by the Organization for Economic Cooperation and Development, of which Canada and the United States became full members in 1961. In addition, the year was a very active one for the International Monetary Fund. During the year the Fund extended financial assistance in record amounts, totalling \$2.5 billion to 22 of its members, and provided substantial additional support by way of lines of credit. Recognition of the degree to which the character of the international payments situation has changed, particularly in the last year or so under conditions of widespread convertibility and massive international movements of short-term capital, led early in 1961 to the beginning of an intensive re-examination of the policies, practices and resources of the Fund which culminated at year-end in an important new plan of additional financial support for the present international exchange system. Ten leading industrial countries, including Canada, undertook to lend their currencies to the Fund up to specified amounts aggregating \$6 billion if the Fund should require additional resources to prevent an impairment of the international payments system. This arrangement will increase the world's ability to cope with the new conditions arising from the greater international mobility of short-term capital, and its very existence should strengthen the world payments position by discouraging speculative activity. It is a source of satisfaction that Canada has played an active part in the expansion of international economic consultation and cooperation.

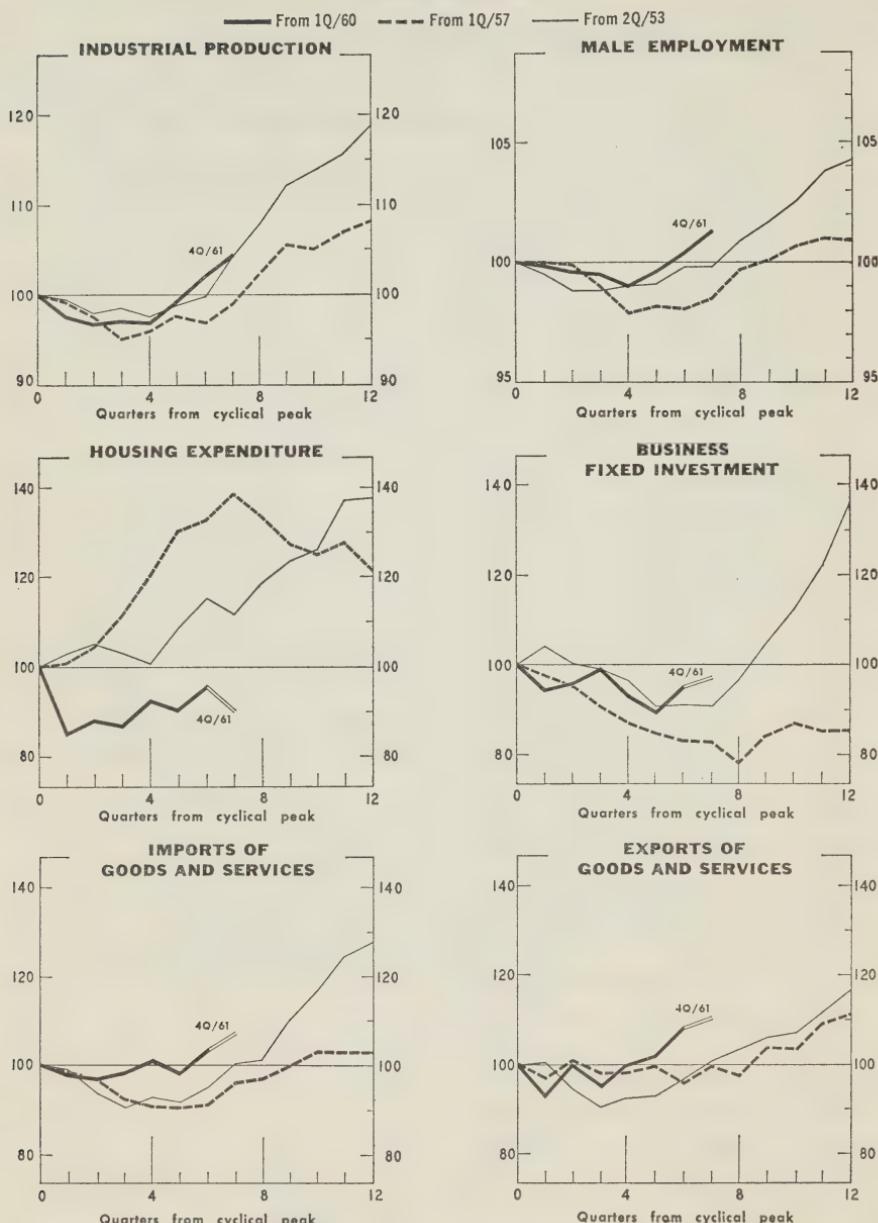
## Economic Developments in Canada

In the first quarter of 1961 the recessionary tendencies which had checked the growth of the Canadian economy for about a year came to an end. By most measures the recession had been shallower than the two preceding ones; it produced hardly more than an irregular plateau in the volume of production of all goods and services. However, the economy had still been operating with a considerable margin of slack at the end of the 1958-60 expansion, in contrast to the position at the cyclical peaks in 1957 or 1953. Consequently, despite the mildness of the decline in activity, unemployment at the end of the recession early in 1961 was at a seasonally adjusted rate of nearly 8 per cent of the labour force compared with a rate of just over 7 per cent at the end of the recession in 1958 and about 5 per cent at the end of the recession in 1954.

While it thus started from a level further below the optimum, the recovery in 1961 was stronger than the 1958 recovery and about as strong as the first three quarters of expansion from mid-1954. Certain sensitive indicators such as industrial production and male employment surpassed their previous peak levels by mid-year, as may be seen in the charts on page 20. By December the index of industrial production was 9 per cent above its first quarter level and 4½ per cent above the pre-recession peak attained in January 1960. Gross National Product in the fourth quarter was about 7 per cent higher in current dollars and 6½ per cent higher in constant dollars than in the first



**SELECTED INDICES<sup>†</sup> OF BUSINESS ACTIVITY**  
**MEASURED FROM PREVIOUS PEAKS IN OVERALL ACTIVITY**  
**Cyclical Peak = 100**



<sup>†</sup>Seasonally adjusted. Open line for fourth quarter 1961 indicates provisional estimate.

quarter of 1961; from the first quarter of 1960 the increase was 6 per cent by value and 4½ per cent by volume. Unemployment, on a seasonally adjusted basis, had declined by January 1962 to just under 6 per cent of the labour force, at which level it was approaching the lowest rate reached in the previous expansion.

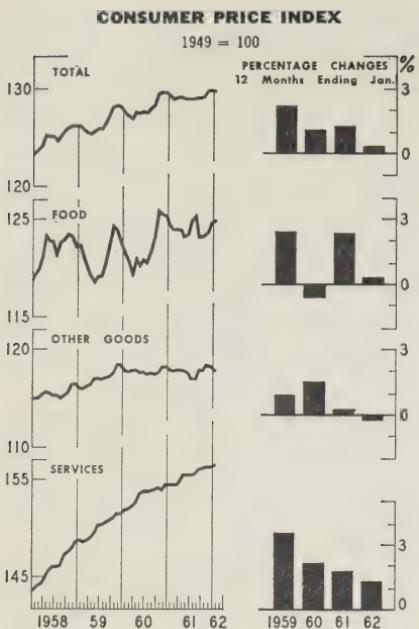
The sources of demand strength in 1961 were somewhat different from those in 1958. On both occasions consumer and government expenditure on goods and services rose appreciably, but in the current expansion the increase in consumer expenditure on durable goods, especially automobiles, has been more pronounced. Business spending on plant and equipment has also picked up sooner this time and the expansion has been less dependent on strength in housing expenditure and on an upswing in inventory investment.

Exports of goods and services rose through 1961 and the improvement in the current account balance was only partly reversed when imports increased in the second half of the year. These developments were much more favourable than in 1958 when recovery was dampened at the outset by a very rapid increase in both the merchandise and non-merchandise trade deficits.

The most pronounced recovery in output occurred in durable manufacturing industry which, as usual, had been most affected by the recession. By the end of the year the total output of durable goods had regained the peak level reached early in 1960, reflecting a strong recovery in electrical goods, automobile production and lumber and a return to near-capacity rates of operation in primary iron and steel. Production of machinery and most other types of producers' goods, however, was still running well below earlier peak levels. Output of the non-durable manufacturing industries regained its previous high as early as the second quarter of 1961 and advanced a further 7 per cent by year-end as a result of continued growth in foods, pulp and paper, and synthetic textiles and a sharp recovery in rubber products. Mining production at the end of 1961 was also about 7 per cent above the previous peak level, due mainly to substantial increases in the production of crude oil, natural gas and nickel.

Farm production and income accruing from farm operations were down sharply in 1961 because of drought conditions in Western Canada. Farm cash receipts, however, were at a record high due to an unusually strong export demand for grain and livestock and favourable domestic markets for most farm products. The heavy shipments into final markets were made possible by a substantial reduction in inventories of farm products, especially grain.

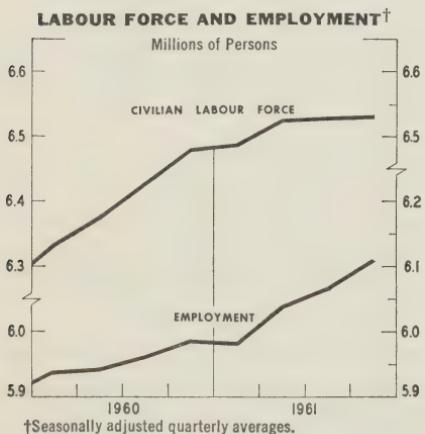
Price increases in 1961 were moderate by comparison with the experience of the 1958 recovery, at which time prices in final markets were still reacting to cost pressures generated in the preceding expansion. In January 1962 the



Consumer Price Index was 0.4 per cent above its level a year earlier, while the advance in the 12 months ending January 1959 had been 2.2 per cent. Prices of commodities other than food as recorded in the index have on balance remained steady over the past two years. Rents and other service costs continued to increase but at a progressively slower rate. Some appreciable increases occurred around mid-year in the Canadian dollar prices of a number of major export and import commodities directly affected by the movement in the exchange rate, but up to the present there has been little evidence of these increases spreading or bringing about a general rise in retail prices. Prices of all goods and services, as reflected in the price deflator of Gross

National Expenditure, are estimated to have increased by no more than  $\frac{1}{2}$  of 1 per cent over the year ending in the fourth quarter of 1961.

**EMPLOYMENT AND UNEMPLOYMENT.** The recovery in business activity in 1961 was reflected in an early improvement in the employment situation and,

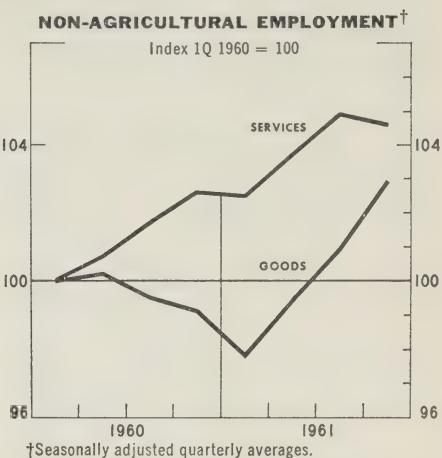


as is shown in the chart on page 19, there was a steady decline in unemployment from a seasonally adjusted rate of just under 8 per cent of the labour force at the beginning of 1961 to a rate just below 6 per cent at the beginning of 1962. A pause in the rate of growth of the civilian labour force contributed to the swiftness of the fall in unemployment. This stemmed in part from a further decline in the labour force participation rate of men, notably those 14 to 24 years of age, and a much slower

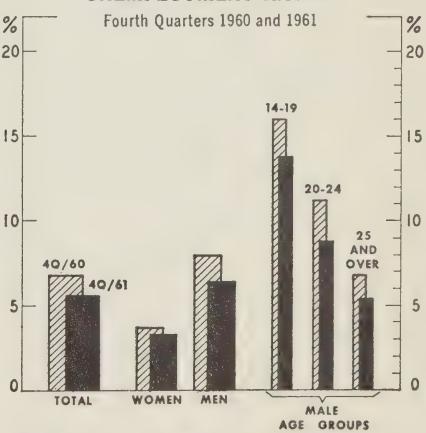
increase in the number of women in the labour force. A similar movement in the participation rate of women occurred in the early months of recovery in 1958. The decline in the proportion of young men in the labour force was associated with an unusually large increase in the proportion at school.

The increase in employment in 1961 was most pronounced for male workers in goods-producing industries, the group most seriously affected by the recession. The recovery was particularly strong in the manufacturing industries, where there was a marked gain in employment during the year in addition to the normal cyclical lengthening of the average work-week. Employment in the service industries, which are large employers of women, increased less in 1961 than in 1960. Employment in agriculture declined slightly in 1961, less than in most earlier years.

The upshot of these developments was a sharp reduction in the rate of male unemployment in the course of the year and a smaller decline in the rate of female unemployment. However, the rate of male unemployment is still considerably higher than that for women, and male unemployment rates for the younger age groups are a good deal higher than the average rate for all men in the labour force. At the same time there continues to be a shortage of trained persons with certain specialized skills, particularly in a number of professional, sub-professional and technical occupations.



#### UNEMPLOYMENT RATES<sup>†</sup>

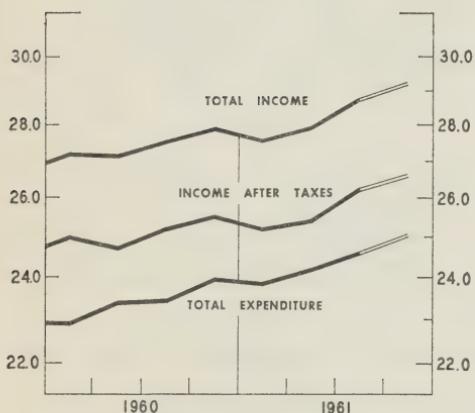


**PERSONAL SECTOR.** Total personal income increased by about 5½ per cent between the first and fourth quarters of 1961. Personal income after taxes increased by slightly more than 5 per cent, while personal expenditure increased by slightly less than 5 per cent. Expenditure on new automobiles rose briskly after the first quarter, and there were also appreciable increases in spending on household and other durable goods.

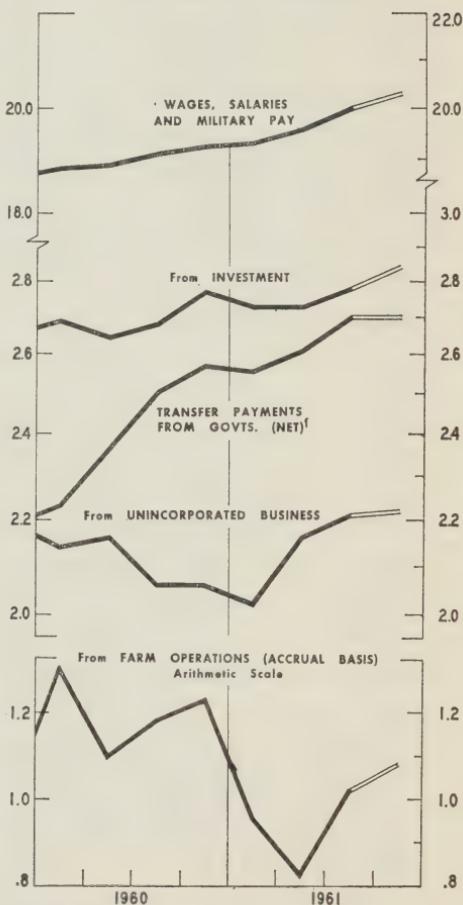
#### PERSONAL INCOME AND EXPENDITURE<sup>†</sup>

Billions of Dollars

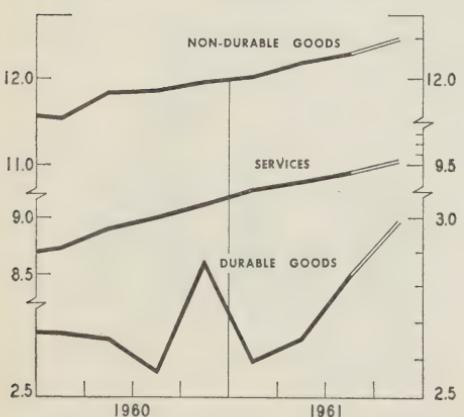
##### SUMMARY



##### COMPONENTS OF INCOME



##### COMPONENTS OF EXPENDITURE

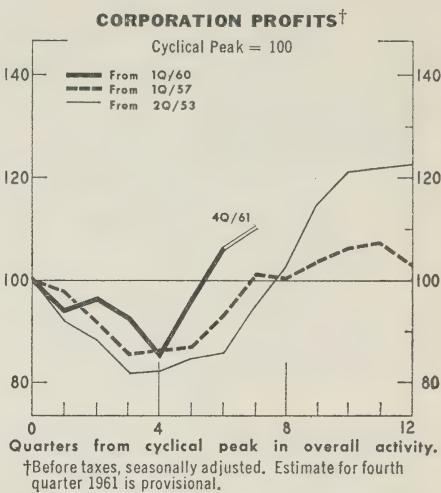


<sup>†</sup> Quarterly, seasonally adjusted at annual rates. Estimates for fourth quarter 1961 are provisional.

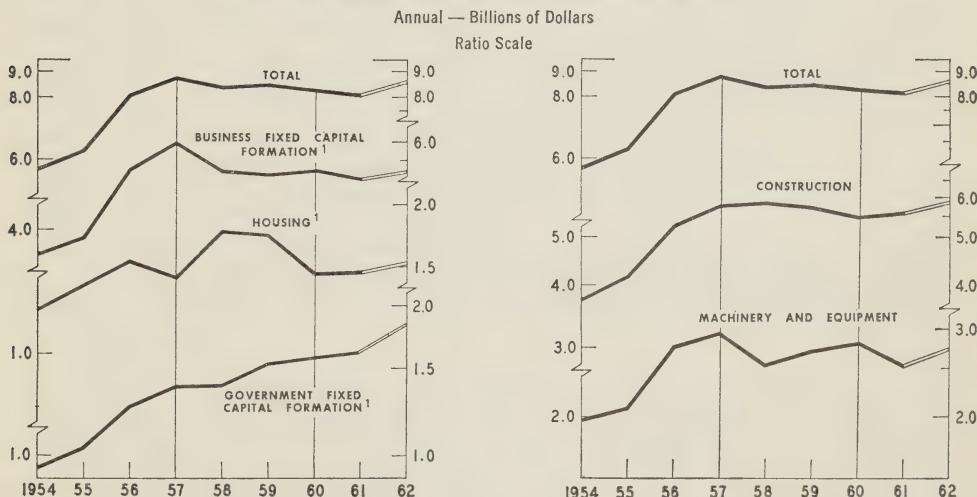
1. Less contributions to social insurance and government pension funds.

**BUSINESS SECTOR.** A striking feature of the recovery in 1961 was the rise of some 30 per cent in the seasonally adjusted rate of corporate profits between the first and fourth quarters. Earnings retained after taxes and dividends rose even more sharply. Most major industrial groups shared in the improvement in corporate income.

On a calendar year basis, business outlays on plant and equipment in 1961 were about 4 per cent below 1960, mainly as a result of considerable declines in investment in manufacturing, transportation and trade. However, quarterly estimates suggest that the low point in business fixed investment was reached in the second quarter and some recovery occurred in the second half of the year. Further increases in 1962 are indicated by the annual survey of investment intentions, with the greatest prospective increases in manufacturing industry, electric power utilities and institutional services; oil and gas pipeline construction is expected to be down sharply in 1962 as large projects are completed.



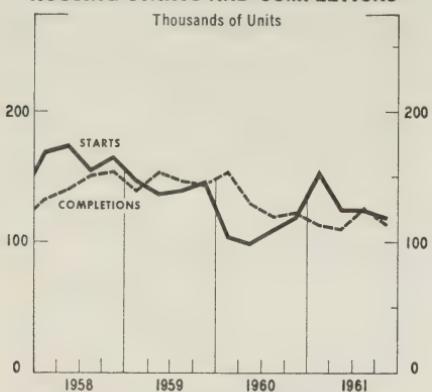
#### PRIVATE AND PUBLIC INVESTMENT<sup>†</sup>



† Figures for 1961 are preliminary and for 1962 are from survey of intentions.

1. National Accounts classification.

### HOUSING STARTS AND COMPLETIONS<sup>†</sup>



<sup>†</sup>Quarterly, seasonally adjusted at annual rates.

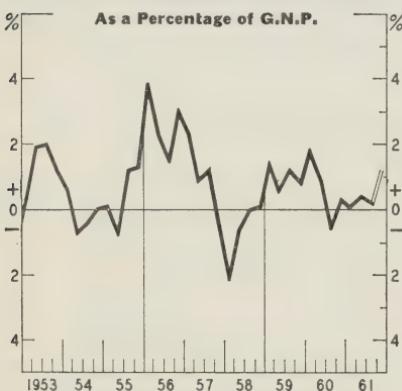
early in 1961 partly as a result of changes in the National Housing Act regulations, dropped sharply in the second quarter and then declined slightly during the remainder of the year. The survey of investment intentions suggests that housing

Expenditure on new residential construction rose slightly in 1961. The number of housing units completed fell from 124 thousand to 116 thousand, while the number of units started rose from 109 thousand to 126 thousand. The increase in starts was reflected in the increase in mortgage lending financed under the National Housing Act by the Central Mortgage and Housing Corporation and particularly by financial institutions other than banks.

The rate of starts, which had risen sharply in the latter part of 1960 and

expenditure will be a little higher in 1962.

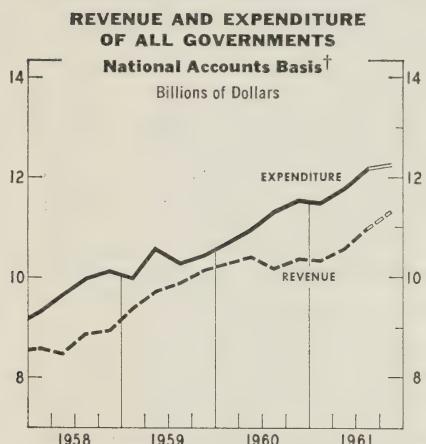
### CHANGE IN BUSINESS INVENTORIES<sup>†</sup>



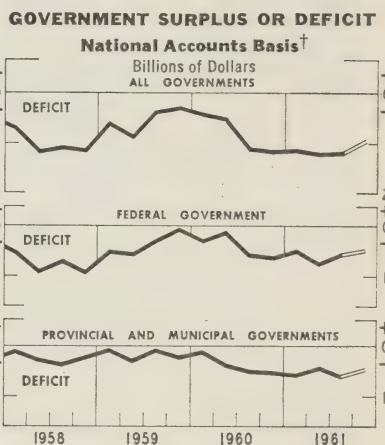
<sup>†</sup>Quarterly, seasonally adjusted. Excludes farm and commercial grain inventories. Estimate for fourth quarter 1961 is provisional.

The 1960 recession was unusual in that the shift in the inventory position resulted in very little actual reduction in inventories, and the usual sharp swing towards accumulation of inventories at the onset of cyclical expansion did not occur on this occasion. The level of business inventories in 1961 remained virtually unchanged until the fourth quarter of the year when a considerable build-up took place.

**GOVERNMENT SECTOR.** Total expenditures on the national accounts basis\* by federal, provincial and municipal governments for all purposes including transfer payments rose more than total revenues in 1961 and the over-all deficit of all governments on the national accounts basis increased for the second consecutive year. This combined deficit reached a peak of about \$1.2 billion, seasonally adjusted at annual rates, in the second and third quarters of 1961. Thereafter it showed some decline, as revenues rose more rapidly in response to the improvement in economic activity and the levying of a new provincial sales tax.



<sup>†</sup>Quarterly, seasonally adjusted at annual rates. Estimates for fourth quarter 1961 are provisional.



At the federal level, the deficit on the national accounts basis reached an annual rate of \$750 million in the second quarter of 1961 and declined in the third and fourth quarters. The total for the year was about \$600 million, compared with \$411 million in 1960 and \$775 million in 1958. The increase in total cash requirements in 1961 was enlarged by the accumulation of certain financial assets, particularly in the form of gold and foreign exchange reserves. The financing of these requirements is discussed in the section of this Report dealing with monetary and financial developments.

The combined provincial and municipal deficit on the national accounts basis in 1961 was about \$500 million, compared with \$398 million in 1960 and \$255 million in 1958.

\* Surpluses or deficits on the national accounts basis differ in several ways from those shown in the conventional accounting statements of the various levels of government. By contrast with the conventional presentations which are designed primarily to serve the objective of legislative control, the national accounts statements attempt to record transactions between the government and all other sectors in a manner that allows the direct impact of government operations on the economy to be seen more readily. On the revenue side, receipts of government pension funds and investment income from extra-budgetary accounts are included and corporation taxes are carried on an accrual basis. Government expenditures, on the other hand, exclude certain transactions such as provisions for reserves, write-offs, amortizations and the purchase of land or existing capital assets. They include the payments out of extra-budgetary funds such as unemployment insurance, old age security, workmen's compensation and government pension funds.

**INTERNATIONAL TRADE AND PAYMENTS.** Canadian merchandise exports rose strongly in 1961 and the increase between the fourth quarter of 1960 and

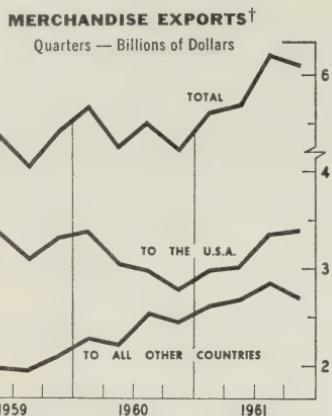
the fourth quarter of 1961 was 16 per cent. The total value of exports for the year as a whole was \$5.9 billion compared with \$5.4 billion in 1960, an increase of 9 per cent. The increase in the value of exports was very largely due to growth in physical volume; the average unit prices of exports rose less than the movement in the foreign exchange rate.

Exports to the United States began to rise at the end of 1960 and by the end of 1961 were running at as high a rate as that reached two years earlier. Exports of farm products to overseas countries rose strongly in 1961, mainly as a result of sales of wheat; on the other hand, shipments to these areas of non-agricultural commodities, which had risen steadily during 1959 and 1960, levelled off in 1961 in response to the trend of economic activity and inventories in some of the major industrial countries.

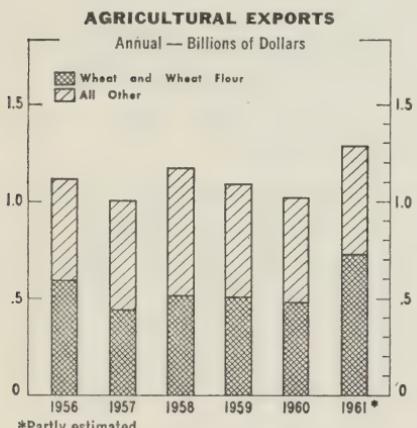
Larger sales of wheat and flour, particularly to mainland China, accounted for approximately half the increase in total exports between 1960 and 1961. Higher sales of petroleum, forest products, nickel, aircraft and

various other manufactured goods also contributed to the increase. Uranium shipments fell further, sales of aluminum were also slightly lower, and shipments of iron ore ran at a relatively low level until the closing months of the year.

Merchandise imports fell during the early months of 1961 following a temporary rise late in 1960 which was associated with sizeable purchases of commercial aircraft. Imports began to rise, however, before the middle of 1961 and increased sharply in the second half of the year. In the fourth quarter of 1961

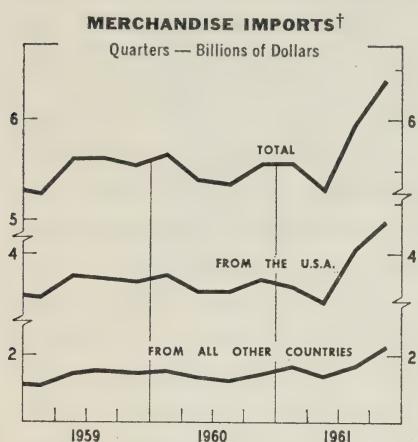


<sup>†</sup>Seasonally adjusted at annual rates.



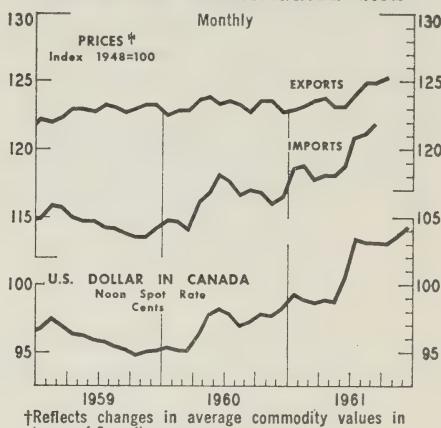
\*Partly estimated.

the value of imports was 15 per cent greater than in the corresponding quarter of 1960. The increase in imports in the latter part of 1961 was no doubt mainly a reflection of rising final demand and of the inventory accumulation which



†Seasonally adjusted at annual rates.

#### EXPORT AND IMPORT COMMODITY PRICES AND THE EXCHANGE RATE



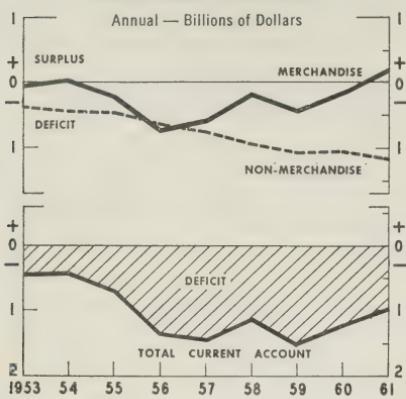
†Reflects changes in average commodity values in terms of Canadian currency.

occurred in the fourth quarter; however, the recorded import figures also include substantial amounts of non-commercial items such as military aircraft acquired under special arrangements. As the chart above shows, the prices of imports rose considerably in consequence of the decline in the exchange value of the Canadian dollar. The increase in the volume of imports was therefore much less than the increase in their value. Information on the commodity composition of imports is not available for all the second half and it is not yet possible to analyse fully the character of the import movement during this period.

For the year as a whole total merchandise imports were \$5.8 billion, higher by 5.5 per cent than in 1960. Notwithstanding the sharp increase in imports in the second half of 1961, the year-to-year rise in imports was less than in exports, and merchandise trade (after adjustment for balance of payments purposes) showed an export surplus of \$179 million in 1961 compared with a deficit of \$145 million in 1960 and \$422 million in 1959. This was the first surplus on merchandise trade in the balance of payments since 1954.

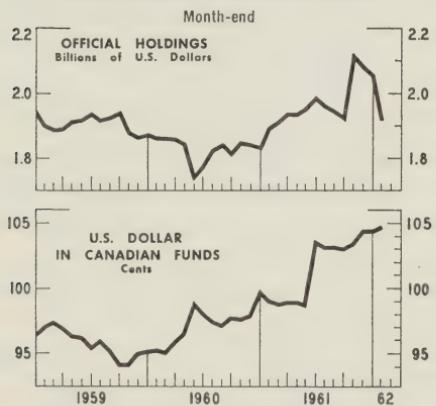
The non-merchandise deficit was \$1,168 million in 1961 compared to \$1,072 million in 1960. The increase reflected larger interest and dividend payments, particularly in the first quarter, and a larger deficit on miscellaneous transactions. The deficit on travel account was less in 1961 than in 1960.

**BALANCE OF INTERNATIONAL PAYMENTS  
ON CURRENT ACCOUNT**



page 33. Foreign direct investment in Canada fell from a record level of \$645 million in 1960 to \$420 million in 1961. The outflow of Canadian capital for direct investment abroad was greater than in previous years. The net inflow of capital resulting from transactions in market securities in 1961 included the proceeds of substantial corporate issues arranged in 1960. There was a large inflow of private short-term funds which was offset in part by an increase of \$229 million in official holdings of gold and foreign exchange.

**OFFICIAL HOLDINGS  
OF GOLD AND UNITED STATES DOLLARS  
AND FOREIGN EXCHANGE RATE**



rate, the price of the United States dollar moved up quickly from 100 to 103 1/2. In the third quarter the exchange rate moved between 103 3/4 at the beginning of

In total, the current account deficit in the balance of payments amounted to \$989 million for the year compared with \$1,217 million in 1960 and the record deficit of \$1,504 million in 1959. On a regional basis, the total current account deficit with the United States rose from \$1,356 million in 1960 to \$1,393 million in 1961 and there was a surplus of \$404 million with all other countries, a sharp increase from the \$139 million surplus registered in 1960.

The capital account of the balance of payments is shown in the table on

At the end of 1960 the United States dollar was quoted at 99 21/32 cents in the Canadian foreign exchange market, having risen in value by about 1 3/4 cents following the budget of December 20. It tended to weaken early in 1961 and then fluctuated within a narrow range around 98 3/4. Official holdings of gold and U.S. dollars rose from U.S. \$1,829 million at the end of December to U.S. \$1,949 million at the end of May.

Following the announcement in the June budget speech of the Government's policy regarding the exchange

July and 103 at the end of September, and official reserves declined from U.S. \$1,985 million to U.S. \$1,924 million over this period. Of this decline, U.S. \$50 million resulted from a transfer to the United Kingdom in connection with its drawing from the International Monetary Fund. In October there was a heavy demand for Canadian funds in the exchange market and official reserves rose by U.S. \$186 million to U.S. \$2,111 million at the end of the month. The U.S. dollar remained at 103 during most of the month and was 103½ on October 31. The exchange rate rose in November and December, and official reserves were reduced by U.S. \$55 million. At the end of the year the exchange rate was 104 11/32 and official reserves stood at U.S. \$2,056 million. At the end of January 1962 the exchange rate was 104 11/16 and official reserves were U.S. \$1,922 million.

**CANADIAN BALANCE OF INTERNATIONAL PAYMENTS  
ON CURRENT ACCOUNT**

(A positive figure indicates a receipt and a negative figure indicates a payment)

(millions of dollars)

	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>
<b>With All Countries</b>				
Merchandise exports <sup>(1)</sup> .....	4,887	5,150	5,400	5,896
Merchandise imports <sup>(1)</sup> .....	-5,066	-5,572	-5,545	-5,717
Balance on merchandise trade.....	-179	-422	-145	179
Gold production available for export.....	160	148	162	158
Travel.....	-193	-207	-207	-160
Interest and dividends.....	-444	-489	-491	-575
Freight and shipping.....	-59	-105	-91	-87
Inheritances and migrants' funds.....	-48	-56	-79	-80
All other current transactions <sup>(2)</sup> .....	-315	-301	-306	-370
Official contributions.....	-53	-72	-60	-54
Balance on non-merchandise items.....	-952	-1,082	-1,072	-1,168
Balance on current account.....	-1,131	-1,504	-1,217	-989
 <b>With The United States</b>				
Merchandise exports <sup>(1)</sup> .....	2,908	3,191	3,039	3,215
Merchandise imports <sup>(1)</sup> .....	-3,443	-3,727	-3,715	-3,831
Balance on merchandise trade.....	-535	-536	-676	-616
Balance on non-merchandise items.....	-641	-694	-680	-777
Balance on current account.....	-1,176	-1,230	-1,356	-1,393
 <b>With All Other Countries</b>				
Merchandise exports <sup>(1)</sup> .....	1,979	1,959	2,361	2,681
Merchandise imports <sup>(1)</sup> .....	-1,623	-1,845	-1,830	-1,886
Balance on merchandise trade.....	356	114	531	795
Balance on non-merchandise items.....	-311	-388	-392	-391
Balance on current account.....	45	-274	139	404

SOURCE: Dominion Bureau of Statistics.

(1) Excluding non-commercial items.

(2) Includes business services, Government transactions and personal or institutional remittances not elsewhere included.

**CANADIAN BALANCE OF INTERNATIONAL PAYMENTS  
ON CAPITAL ACCOUNT**

(A positive figure indicates an inflow of capital into Canada, and thus an increase in Canadian liabilities or a decrease in Canadian assets. A negative figure indicates the reverse.)

(millions of dollars)

	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>
Foreign direct investment in Canada <sup>(1)</sup> .....	420	550	645	420
Canadian direct investment abroad <sup>(1)</sup> .....	-48	-80	-85	-110
Net new issues of Canadian stocks.....	27	30	17	-17
Net trade in outstanding Canadian stocks.....	88	110	49	40
Net new issues of Canadian bonds				
Corporate bonds.....	200	47	53	201
Government of Canada bonds.....	51	-45	-28	-10
Provincial bonds.....	123	293	52	30
Municipal bonds.....	118	124	100	-4
Total.....	<u>492</u>	<u>419</u>	<u>177</u>	<u>217</u>
Net trade in outstanding Canadian bonds.....	-	91	3	63
Net transactions in foreign stocks and bonds....	3	-33	-20	-30
Miscellaneous long-term capital movements.....	130	61	90	21
Private short-term capital movements				
Canadian holdings of foreign assets <sup>(2)</sup> .....	-58	-120	-61	154
Foreign holdings of Canadian assets <sup>(2)</sup> .....	106	13	120	-34
Other short-term capital movements <sup>(3)</sup> .....	81	449	250	554
Total.....	<u>129</u>	<u>342</u>	<u>309</u>	<u>674</u>
Official subscriptions to international financial agencies.....	-1	-56	-7	-60
Official holdings of gold and foreign exchange <sup>(4)</sup> .	<u>-109</u>	<u>70</u>	<u>39</u>	<u>-229</u>
Net capital inflows.....	<u>1,131</u>	<u>1,504</u>	<u>1,217</u>	<u>989</u>

SOURCE: Dominion Bureau of Statistics.

(1) Exclusive of undistributed earnings.

(2) Includes mainly changes in bank balances and treasury bill holdings.

(3) Includes borrowings from non-residents by finance companies, changes in non-resident holdings of commercial paper, changes in loans between private unrelated parties, changes in receivables and payables, and a balancing item representing errors and omissions.

(4) Minus sign indicates increase.

## **Monetary and Financial Developments**

**CREDIT CONDITIONS IN 1961.** Credit conditions in Canada eased considerably in the course of 1961. Chartered banks and other lending institutions pursued active lending policies in regard to business and personal loans, and the banks were able to add substantially to their more liquid assets as well. Mortgage funds were also in comparatively ample supply. Interest rates were lower in the second half of the year than in the first and substantially lower than the rates reached in late 1959 and early 1960. The downward movement of interest rates in Canada after May contrasted with a rising trend in the comparable rates in the United States, and the wide spreads between longer-term interest rates in the two markets which had prevailed for nearly two years narrowed appreciably.

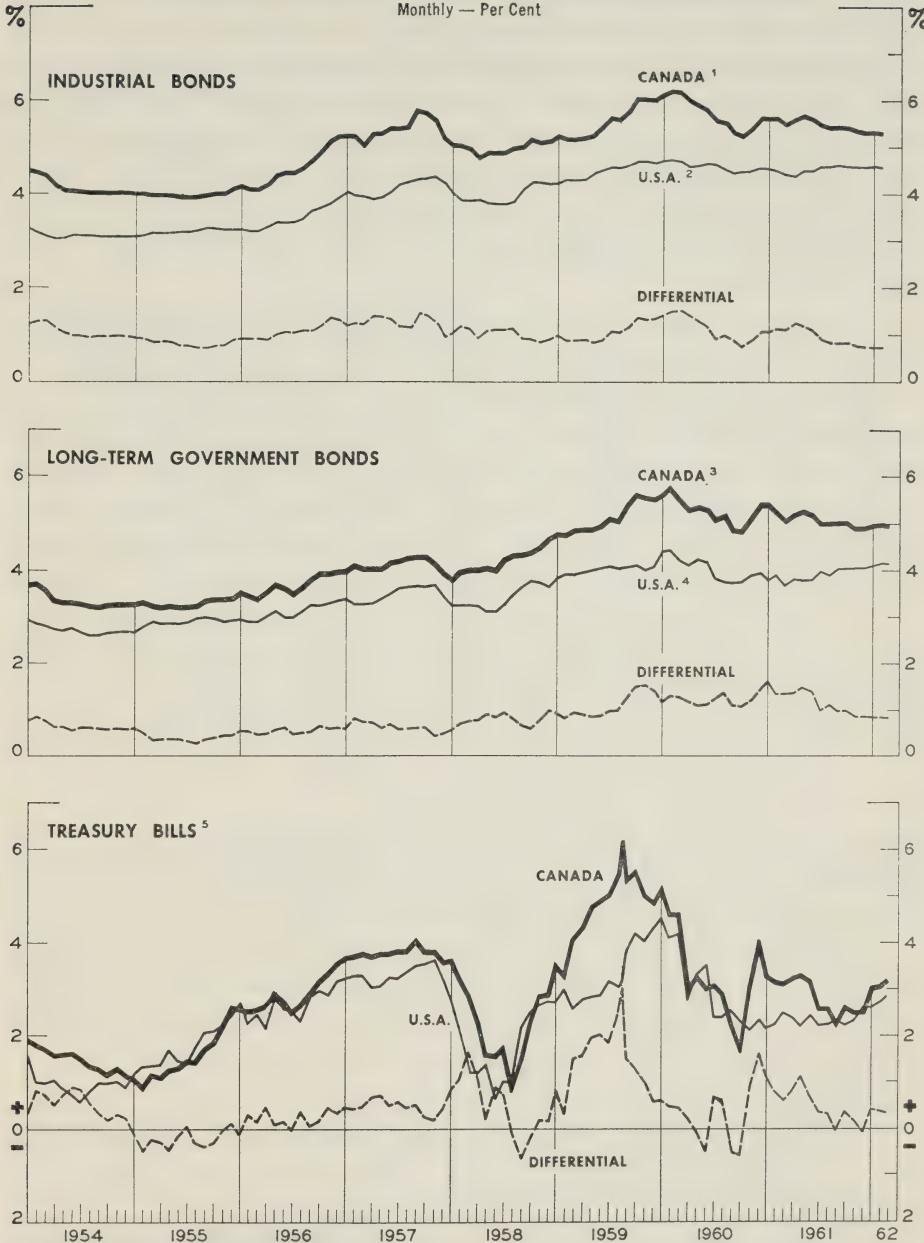
Yields on long-term Government of Canada bonds moved around an average level of close to  $5\frac{1}{4}$  per cent during the first five months of 1961. In June they fell to slightly below 5 per cent and remained close to this level through the remainder of the year. Yields on medium-term Government bonds fluctuated around a level of about  $4\frac{1}{2}$  to  $4\frac{3}{4}$  per cent in the first five months, fell in June and continued to decline through most of the second half of the year. Yields on 91-day treasury bills fluctuated around an average level of roughly  $3\frac{1}{4}$  per cent during the first five months of the year, declined to about  $2\frac{1}{2}$  per cent in June and were relatively stable thereafter until they rose in the closing weeks of the year to a level of about 3 per cent.

Yields on long-term provincial, municipal, and corporate bonds remained close to their end-1960 levels until May 1961, fell appreciably around mid-year and then declined gradually through the remainder of the year.

A number of important institutional lending and deposit interest rates were reduced during 1961. The maximum rates charged on most types of mortgage loans insured under the National Housing Act were cut by  $\frac{1}{4}$  of 1 per cent on November 6; for home-owner and rental housing the maximum rate was reduced from  $6\frac{3}{4}$  per cent to  $6\frac{1}{2}$  per cent. Commonly prevailing rates on conventional mortgage loans were also lowered during the year. The chartered banks' prime commercial loan rate, which had been set at  $5\frac{3}{4}$  per cent in April 1959, was reduced to  $5\frac{1}{2}$  per cent on June 1, 1961. The interest rates offered by the chartered banks on deposit receipts of \$100,000 or more for periods of up to

## INTEREST RATES - CANADA AND UNITED STATES

Monthly — Per Cent



1. Source: McLeod, Young, Weir and Co. Ltd. First of month.

2. Source: Moody's Investors Service. First of month.

3.  $3\frac{3}{4}\%$  Government bonds due Jan. 15, 1975-78. Last Wednesday in month.

4.  $3\frac{1}{4}\%$  Government bonds due June 15, 1978-83. Last Wednesday in month.

5. 91-day treasury bills. Last tender in month.

one year, which previously had been set below yields on treasury bills of comparable maturity, were raised in January 1961 and maintained through the year at levels somewhat above treasury bill yields. The initial range of 3½ to 4½ per cent was adjusted from time to time; by June the range was 2½ to 3½ per cent and this was maintained virtually unchanged through the second half of the year. Interest rates paid by trust companies on guaranteed investment certificates, by loan companies on debentures, and by finance companies and other corporations on short-term paper were lower at the end of 1961 than at the beginning of the year.

In the United States, interest yields on most types of securities remained fairly steady or declined slightly during the first four or five months of 1961, rose in the summer months, and were relatively stable through the rest of the year; yield spreads between comparable types of securities in the United States and Canadian markets narrowed substantially in June and in most cases continued to decline somewhat during the second half of the year. The average spread between the yields on United States Government and Canadian Government long-term bonds was reduced from roughly 1.40 per cent in the early months of 1961 to about .90 per cent in the latter part of the year, and the spread in industrial bond yields also narrowed. In the case of short-term treasury bills, the yield spread between the United States and Canadian markets fluctuated considerably but on the average was much lower during the latter part of 1961 than during the first five months of the year.

**FINANCIAL FLOWS THROUGH THE BANKING SYSTEM AND SECURITIES MARKETS.** The easing of credit conditions in 1961 did not stem from a decline in the demand for borrowed funds; indeed the total amount of net new borrowing in Canada rose substantially during the year. For the year as a whole the total of net new funds borrowed through the banking system and securities markets\* amounted to \$3.0 billion, which was \$600 million more than the amount raised in this way in 1960 though less than the amounts raised in 1958 and 1959.

\* The tables which appear in this section summarize for recent years

- the growth in the outstanding obligations of Canadian governments and private borrowers in the form of securities and bank loans (pages 40 and 41).
- the corresponding growth in holdings of money balances and securities by the Government, the public in Canada and non-residents (pages 42 and 43).

If more complete data were available, these tables could be extended to include important types of debt and financial assets in addition to those shown, e.g. mortgages held by non-bank lenders, corporate short-term paper, trust company deposits, etc. They could also be improved by distinguishing financial intermediaries such as instalment finance, trust and loan, and insurance companies from the rest of the non-bank public. In spite of these limitations, the tables provide a means of examining the operations of the banking system against the broader perspective of some of the main financial flows through credit and capital markets.

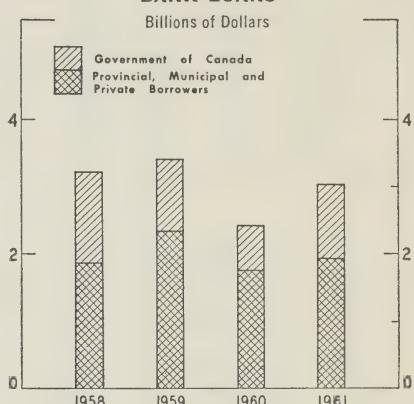
The increase in borrowings of these kinds from 1960 to 1961 was largely accounted for by the Government of Canada, which made net sales of \$1.1 billion of direct and guaranteed securities to the banking system and public during 1961, an increase of \$450 million over 1960.

All other Canadian borrowers (provinces, municipalities, businesses and individuals) raised \$1.9 billion in 1961 from net new issues of securities and increases in bank loans, an amount which was about \$150 million greater than in 1960 but still relatively low by comparison with a number of earlier years; however, the trend was upward through 1961, reflecting a pick-up in business borrowing in the second half of the year associated with the upturn in economic activity and a marked increase in borrowing by provincial governments. The table on pages 40 and 41 shows the amounts raised annually since 1954 through increases in the outstanding securities of, and bank loans owed by, various categories of Canadian borrowers; further details concerning securities issues and bank borrowing during 1961 will be found in subsequent sections of this Report.

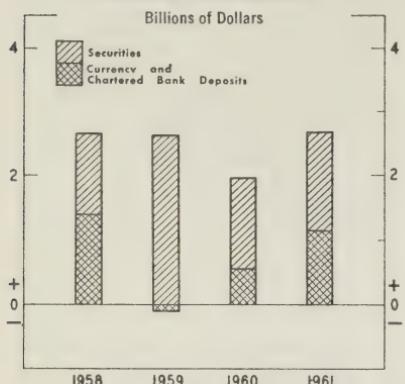
The whole of the \$600 million increase in the major forms of borrowing in 1961 was, on balance, financed through the banking system. As will be seen from the table on pages 42 and 43, the chartered banks and Bank of Canada added \$1.3 billion to their holdings of securities and loan obligations in 1961 compared with \$0.7 billion in 1960, issuing in exchange corresponding amounts of their liabilities—mainly deposits and currency—to others. A total of \$1.7 billion of securities was sold outside the banking system, the same amount as in 1960.

As a group, therefore, non-bank holders of financial assets added \$1.3 billion of currency and chartered bank deposits and \$1.7 billion of securities, or a total of \$3.0 billion to their holdings in 1961, compared with \$0.7 billion in currency and bank deposits and \$1.7 billion in securities, or a total of \$2.4 billion in 1960. The public in Canada (i.e. individuals, businesses, provinces, municipalities and non-bank financial institutions) added \$1.1 billion to its holdings of currency and bank deposits in 1961 compared with \$0.5 billion in 1960, and the increase in its holdings of securities was \$1.5 billion in 1961 compared with

NET INCREASE IN OUTSTANDING  
CANADIAN SECURITIES AND  
BANK LOANS



**NET INCREASE IN CERTAIN  
FINANCIAL ASSETS HELD BY THE  
PUBLIC IN CANADA**



\$1.4 billion in the previous year. The increase in Government holdings of bank deposits was the same in 1961 as in 1960, and there was a decrease of about \$0.1 billion in that part of the capital inflow from abroad which took the form of additions to non-resident holdings of Canadian bank deposits and securities.

Within 1961, as will be seen in the table on pages 42 and 43, the Government's deposit balances declined by \$0.4 billion during the first half of the year when there was little increase

in total bank deposits and rose by \$0.5 billion during the second half when total deposits increased by \$1.2 billion. As usual, Government balances increased considerably in November when the bulk of the proceeds of Canada Savings Bond sales became available; in addition, net sales of new market issues by the Government were larger in the second half of 1961 than in the first half. It will be noted from the table that the deposits of the public in Canada increased by about the same amount in the second half of the year as in the first half.

The tables on pages 40 to 43 reflect the fact that for the economy as a whole (including transactions with non-residents) the growth in outstanding financial obligations during any period is identical with the growth in holdings of financial assets. But this is of course not the case for particular economic sectors such as the various levels of government, businesses and individuals in Canada, and non-residents. If more comprehensive and detailed figures were available it would be possible to show for each sector of the economy the extent to which, on balance, it acquired net financial claims on other sectors by running a surplus (i.e. spending less than its current income) or the extent to which it incurred net liabilities to other sectors by running a deficit (i.e. spending more than its current income). Estimates of these surpluses and deficits (though not of their financing) are available for recent years in the national accounts.

**NATIONAL ACCOUNTS SURPLUS OR DEFICIT (-) BY SECTOR**

(millions of dollars)

	<b>Government of Canada<sup>(1)</sup></b>	<b>Provincial governments<sup>(1)</sup></b>	<b>Municipal governments<sup>(1)</sup></b>	<b>Resident individuals, businesses, &amp; gov't.-owned enterprises<sup>(2)</sup></b>	<b>Non-residents (= capital inflow)</b>
1954	-100	155	-186	-296	427
1955	176	134	-204	-785	679
1956	544	79	-273	-1,700	1,350
1957	249	144	-293	-1,522	1,422
1958	-775	64	-319	53	1,083
1959	-362	135	-309	-903	1,439
1960	-411	-69	-329	-382	1,191
1961	-600*	- 500*		200*	900*

(1) The surpluses and deficits estimated on the national accounts basis for the various levels of government differ in important respects from those shown in conventional budgetary statements. See footnote on page 27.

(2) Statistical residual.

\* Bank of Canada provisional estimates.

Each level of government ran a somewhat larger deficit in 1961 than in 1960 and the non-resident surplus, i.e. the net inflow of capital from abroad, declined. These changes were in the direction of increasing the demand for financial accommodation relative to the supply. They were balanced by a swing in the position of the public in Canada (individuals, businesses and government-owned enterprises) from a deficit of \$0.4 billion in 1960 to a surplus of \$0.2 billion in 1961, i.e. from a position in 1960 where the financial liabilities of the public in Canada increased by \$0.4 billion more than their financial assets to a position in 1961 in which their financial assets increased by \$0.2 billion more than their liabilities.

In 1960 the demand for goods and services had levelled off in Canada, and there was a marked easing of credit conditions during much of that year even though the public's holdings of money balances were increasing only moderately. Early in 1961 the demand for goods and services began to rise again. As the table on pages 40 and 41 shows, the net amount of funds raised through security issues and bank borrowing by the Government and other borrowers combined was substantially higher in 1961 than in 1960 and much higher in the second half of 1961 than in the first half. In spite of this increased amount of borrowing, interest rates remained stable or moved lower through most of the second half following the decline which occurred in June. The increased accumulation of financial assets by the public in Canada in 1961 was largely in the form of bank deposits rather than securities.

**NET INCREASE IN OUTSTANDING SECURITIES AND BANK LOANS  
CLASSIFICATION BY BORROWER**

(millions of dollars)

	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>
<b>Government of Canada</b>				
Securities <sup>(1)</sup> .....	- 61	247	- 793	82
<b>Provincial governments</b>				
Securities.....	293	210	540	549
Bank loans.....	- 4	22	12	- 6
Sub-total.....	290	232	552	542
<b>Municipal governments</b>				
Securities.....	240	234	224	278
Bank loans.....	6	21	53	21
Sub-total.....	246	255	277	300
<b>Private Canadian borrowers</b>				
Corporate bonds.....	476	350	799	958
Corporate stocks <sup>(2)</sup> .....	173	431	633	466
Finance company notes.....	- 39	59	94	48
Bank loans <sup>(3)</sup> .....	129	984	641	362
Sub-total.....	738	1,823	2,167	1,834
(Sub-total: provincial, municipal and private).....	(1,274)	(2,310)	(2,995)	(2,676)
Total.....	1,212	2,557	2,202	2,758

(1) Direct and guaranteed securities held outside Government accounts.

(2) Excludes chartered bank stock issues.

(3) All other chartered bank loans in Canadian currency, including day-to-day and call loans to securities dealers and mortgage loans.

<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u> (Est.)	<u>1960</u>		<u>1961</u>	
				<u>I Half</u>	<u>II Half</u>	<u>I Half</u>	<u>II Half</u> (Est.)
1,360	1,054	669	1,110	184	485	148	963
614	568	477	931	307	170	386	545
—20	—30	89	—82	—19	108	—95	13
594	538	566	849	288	278	291	558
323	326	319	252	206	114	114	138
24	14	—14	30	—27	13	47	—17
347	340	305	283	178	126	161	121
657	127	310	306	310	—	170	135
262	310	187	156	118	70	198	—42
—111	135	10	—67	52	—43	44	—111
120	902	392	422	138	254	—46	468
928	1,474	899	816	618	281	366	450
(1,869)	(2,352)	(1,770)	(1,948)	(1,084)	(686)	(819)	(1,130)
3,230	3,405	2,439	3,058	1,268	1,171	967	2,092
====	====	====	====	====	====	====	====

**NET INCREASE IN HOLDINGS OF CERTAIN FINANCIAL ASSETS  
CLASSIFICATION BY HOLDER**

(millions of dollars)

	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>
<b>Chartered banks and Bank of Canada</b>				
Canadian securities.....	468	135	-636	160
Chartered bank loans.....	131	1,027	706	378
<b>Total.....</b>	<b>599</b>	<b>1,161</b>	<b>70</b>	<b>537</b>
<b>Non-bank holders</b>				
Currency and bank deposits.....	527	1,117	-10	480
Other net liabilities of banking system <sup>(1)</sup> .....	72	44	80	57
<b>Sub-total<sup>(2)</sup>.....</b>	<b>599</b>	<b>1,161</b>	<b>70</b>	<b>537</b>
Canadian securities.....	613	1,396	2,132	2,221
<b>Total (as per table on pages 40-41) .....</b>	<b>1,212</b>	<b>2,557</b>	<b>2,202</b>	<b>2,758</b>
of which:				
<b>Government of Canada</b>				
Chartered bank and Bank of Canada deposits..	-292	373	-321	174
<b>Public in Canada</b>				
Government of Canada securities.....	-398	485	-139	-28
Other Canadian securities.....	826	857	1,528	1,444
<b>Sub-total: Canadian securities.....</b>	<b>427</b>	<b>1,342</b>	<b>1,389</b>	<b>1,417</b>
Currency and chartered bank deposits.....	790	683	338	322
Other net liabilities of banking system.....	72	44	80	57
<b>Total.....</b>	<b>1,289</b>	<b>2,069</b>	<b>1,807</b>	<b>1,796</b>
<b>Non-Residents</b>				
Government of Canada securities <sup>(3)</sup> .....	-111	-145	-64	-45
Other Canadian securities.....	296	199	807	849
<b>Sub-total: Canadian securities.....</b>	<b>185</b>	<b>54</b>	<b>743</b>	<b>804</b>
Canadian bank deposits.....	29	62	-26	-15
<b>Total.....</b>	<b>214</b>	<b>116</b>	<b>717</b>	<b>789</b>

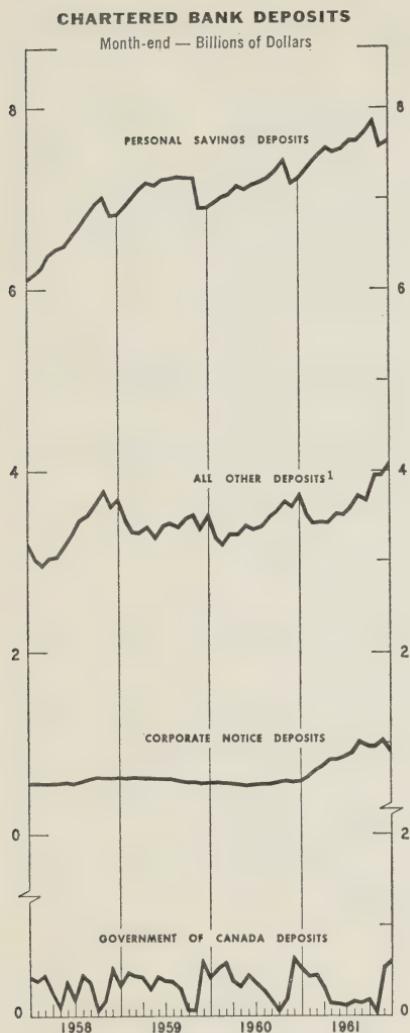
(1) Balancing item.

(2) Equals total holdings of securities and loans by banking system as above.

(3) Includes treasury bills.

<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u> (Est.)	<u>1960</u>		<u>1961</u>	
				<u>I</u> Half	<u>II</u> Half	<u>I</u> Half	<u>II</u> Half
1,305	-799	262	940	99	164	291	649
124	886	467	370	91	375	-94	464
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1,428	88	729	1,310	190	539	197	1,113
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1,319	-42	711	1,257	91	620	48	1,209
109	130	17	53	99	-82	149	-96
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1,428	88	729	1,310	190	539	197	1,113
1,801	3,318	1,710	1,748	1,078	632	769	979
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3,230	3,405	2,439	3,058	1,268	1,171	967	2,092
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-104	95	96	84	-49	146	-406	490
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180	1,667	274	238	45	229	-154	392
963	937	1,119	1,255	746	374	752	503
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1,143	2,604	1,393	1,493	791	602	598	895
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1,385	-131	541	1,134	149	392	550	584
109	130	17	53	99	-82	149	-96
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2,637	2,603	1,951	2,680	1,039	912	1,297	1,383
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94	90	81	5	30	51	9	-4
564	624	236	250	257	-21	162	88
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658	714	317	255	287	30	171	84
38	-7	74	39	-9	82	-96	135
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696	707	391	294	278	112	75	219

## CURRENCY AND CHARTERED BANK DEPOSITS.



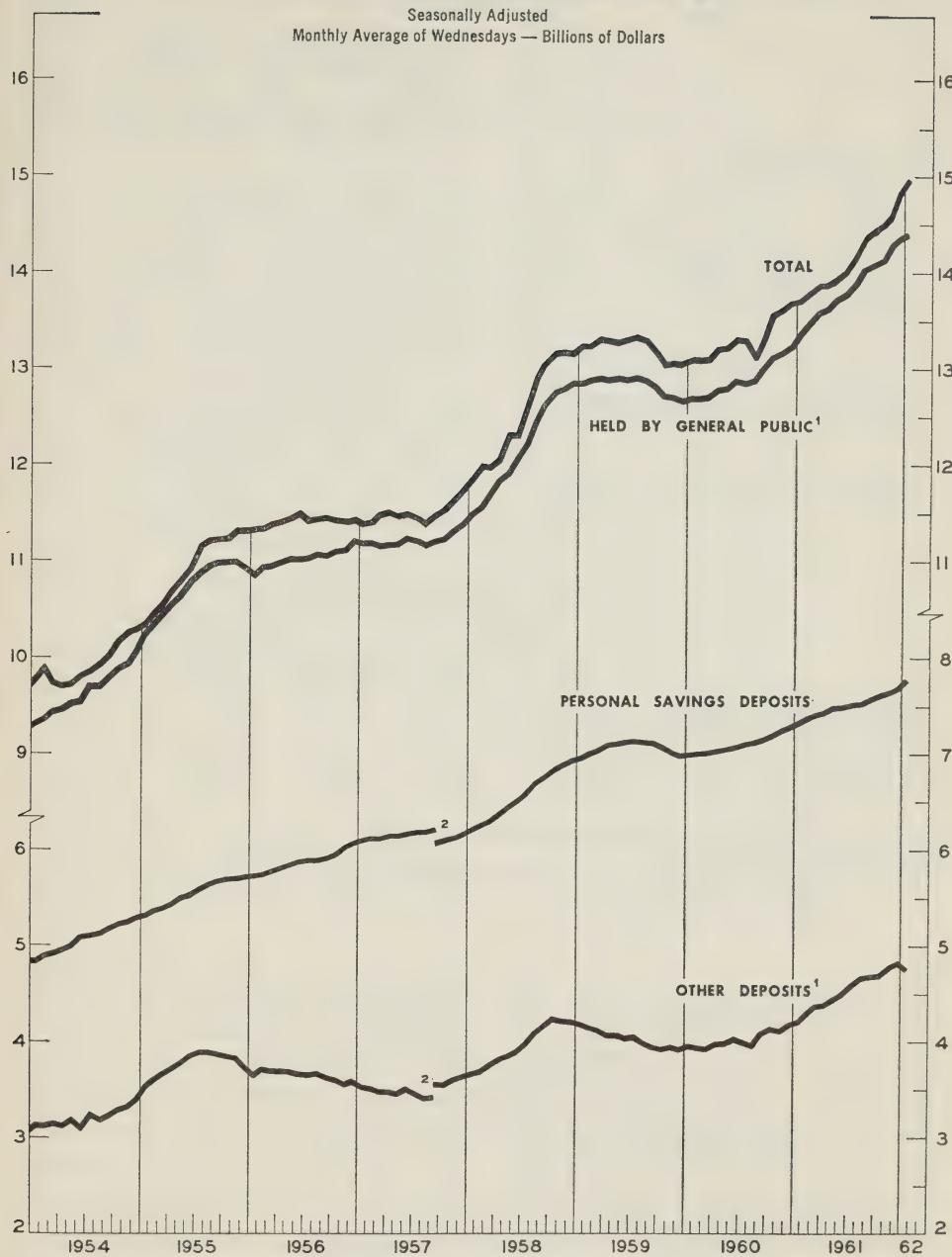
1. Includes public demand deposits, deposits of provincial governments and deposits of other banks, less Canadian dollar items in transit.

The total of currency outside banks and chartered bank deposits rose by \$1,250 million or 9.0 per cent during 1961 to a level of \$15,163 million at year-end and the portion held by the general public increased by \$1,172 million or 8.7 per cent to a level of \$14,575 million at year-end. Both these series are subject to seasonal influences, including those which arise out of the concentration of the Government's Canada Savings Bond borrowings in November each year. Seasonally adjusted figures are shown in the chart on the facing page and in the table on page 46.

Chartered bank deposits rose by \$1,167 million in the year, with personal savings deposits up \$403 million (5.6 per cent), corporate notice deposits up \$353 million (61.3 per cent), other deposits, mainly public demand deposits, up \$333 million (8.9 per cent) and Government deposits up \$78 million. The increase in corporate notice deposits during 1961, which was much larger than has occurred in recent years, is commented on earlier in this Report.

**CURRENCY OUTSIDE BANKS  
AND CHARTERED BANK DEPOSITS**

Seasonally Adjusted  
Monthly Average of Wednesdays — Billions of Dollars



1. Excludes Government of Canada deposits.

2. Breaks reflect reclassification at Sept. 30, 1957, of certain deposits from "Personal Savings Deposits" to "Other Deposits".

**CURRENCY OUTSIDE BANKS AND CHARTERED BANK DEPOSITS**

(millions of dollars)

As at Dec. 31 1961	Increase or decrease (—) during:					
	1960		1961		Year 1960	Year 1961
	I Half	II Half	I Half	II Half		
Held by general public						
Currency outside banks						
Notes.....	1,800	53	—26	49	19	27
Coin.....	158	9	8	4	10	17
Personal savings deposits.....	7,618	241	74	335	69	315
Corporate notice deposits.....	929	—19	37	281	73	18
Other deposits <sup>(1)(2)</sup> .....	4,070	—146	383	—210	543	237
Total.....	14,575	139	476	458	714	615
Government of Canada deposits..	588	—49	155	—397	475	106
<b>Total currency and chartered bank deposits<sup>(2)</sup>.....</b>	<b>15,163</b>	<b>90</b>	<b>631</b>	<b>61</b>	<b>1,189</b>	<b>721</b>

Dec. 1961	Seasonally Adjusted			
	Increase during:			
	1960		1961	
	I Half	II Half	I Half	II Half
Currency outside banks and chartered bank deposits <sup>(2)(3)</sup>				
Total.....	14,820	261	372	333
Held by general public.....	14,349	215	352	540

(1) Includes public demand deposits, deposits of provincial governments and deposits of other banks.

(2) Less Canadian dollar items in transit.

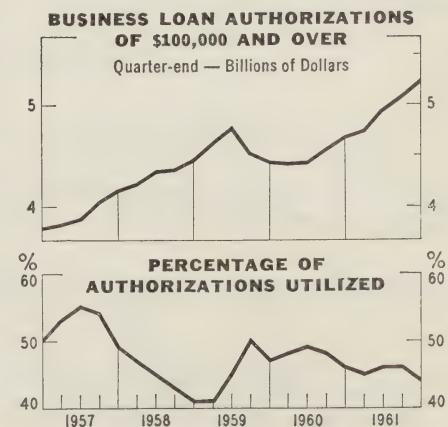
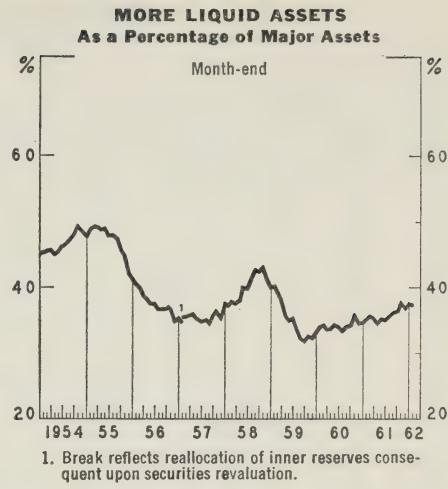
(3) Monthly averages of Wednesday figures. Changes shown are from December average to June average or vice versa.

**CHARTERED BANK ASSETS.** The chartered banks' major assets rose by \$1,214 million or 9.5 per cent in 1961. Bank loans (other than day-to-day and call loans) increased by \$353 million, and bank holdings of insured mortgages and non-Government securities increased by \$31 million. The bulk of the year's increase in bank assets was in the more liquid forms (i.e. Government securities, loans to securities dealers, net foreign assets and cash reserves) which rose by \$830 million. As a proportion of total chartered bank assets these more liquid holdings had risen to 37.5 per cent by the end of 1961 from 34.6 per cent a year earlier, and 31.8 per cent in September 1959, the post-war low point in

this measure of bank liquidity. There have, as the inset chart shows, been lengthy periods in recent years when the more liquid assets constituted a higher proportion of total bank assets than they did at the end of 1961.

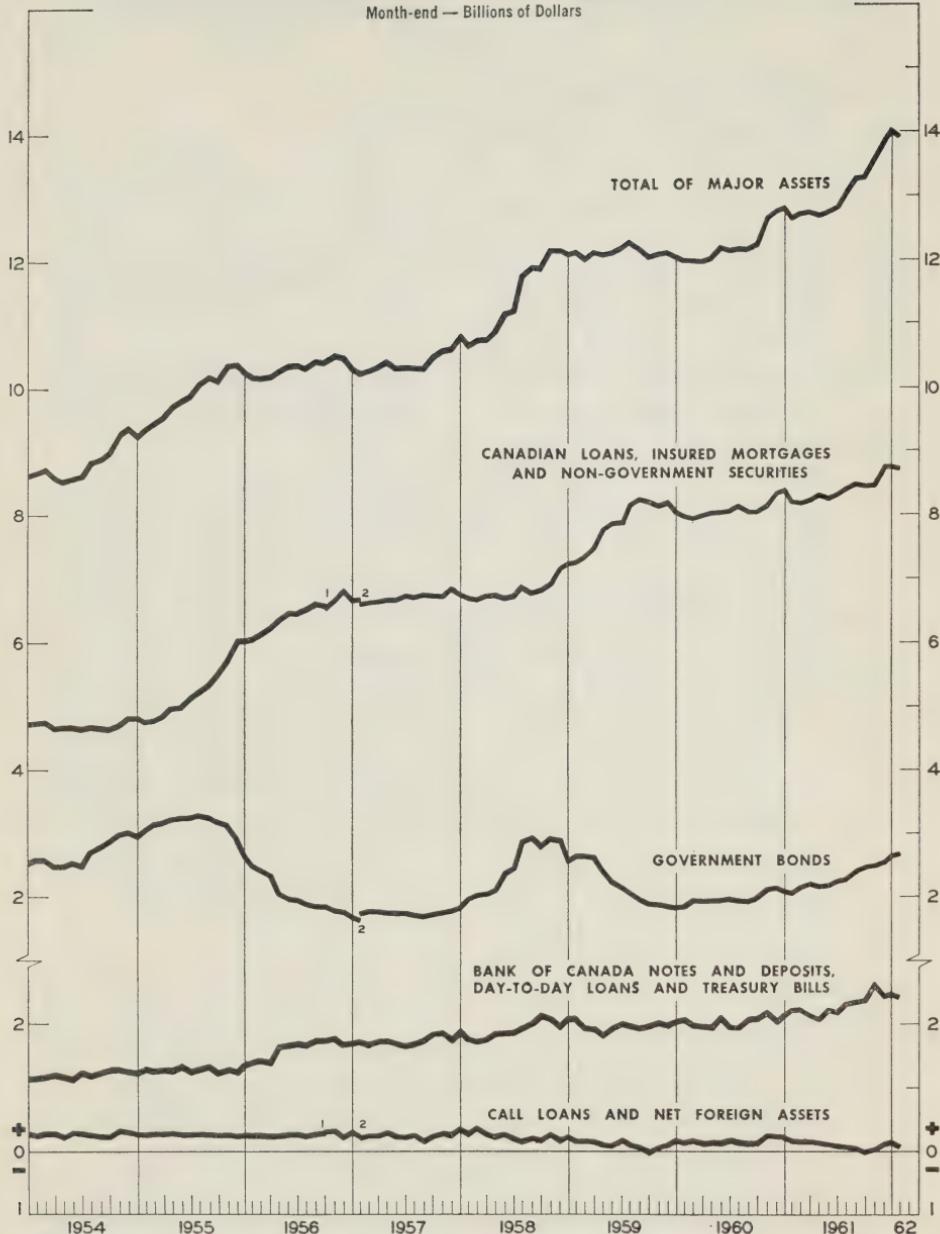
The chartered banks' average ratio of cash, day-to-day loans and treasury bills to deposits was 18.3 per cent in 1961 compared with 17.3 per cent in 1960 and with the minimum ratio of 15 per cent which had been agreed upon in 1956. During 1961 the monthly average ratio fluctuated within a range of 17.3 to 19.0 per cent and in December was 18.7 per cent.

Bank loans rose moderately in the early part of 1961, after allowing for normal seasonal influences, and increased more rapidly through the rest of the year. General loans (i.e. business loans, personal loans, loans to farmers and to non-business institutions) increased by \$615 million or 12 per cent on the year. The rise in business loans was \$303 million or 9 per cent, most of which occurred in the second half of the year and in accounts with authorized limits of less than \$1 million. Business loan authorizations, which are reported only for amounts of \$100,000 or more, rose by \$563 million or 12 per cent during the year. At the end of 1961, 44 per cent of outstanding authorizations had been utilized, compared with 46 per cent a year earlier and 50 per cent in September 1959. Personal loans outstanding rose by \$232 million or 19 per cent in 1961; these were chiefly instalment-type consumer loans. Loans to farmers increased by \$65 million or 16 per cent and loans to non-business institutions increased by \$14 million or 7 per cent on the year. Among other categories, loans to municipalities rose by \$30 million during 1961, but loans to provincial governments, to grain dealers and to instalment finance companies declined by a total of \$295 million.



### CHARTERED BANK ASSETS

Month-end — Billions of Dollars



1. Breaks reflect transfer of certain loans from Canadian loans to net foreign assets.

2. Breaks reflect reallocation of inner reserves consequent upon securities revaluation.

### CHARTERED BANK ASSETS

(millions of dollars)

As at Dec. 31 1961	Increase or decrease (-) during:					
	1960		1961		Year 1960	Year 1961
	I Half	II Half	I Half	II Half		
Bank of Canada notes and deposits.....	1,096	-122	162	-108	211	40
Day-to-day loans.....	215	56	15	-24	67	71
Treasury bills.....	1,157	-15	8	174	15	-7
Government bonds.....	2,639	142	119	152	400	261
Net foreign assets.....	21	3	47	-111	61	50
Call loans.....	130	6	-6	-25	17	-1
Sub-total: more liquid assets...	5,258	70	345	59	771	414
Loans to provinces.....	45	-19	108	-95	13	89
Loans to municipalities.....	247	-27	13	47	-17	-14
Loans to grain dealers.....	348	-53	82	-141	26	28
Canada Savings Bond loans.....	189	-118	116	-117	120	-2
Loans to instalment finance companies.....	273	-24	-14	-75	-23	-38
General loans.....	5,647	256	75	350	265	331
(Sub-total: loans).....	(6,750)	(14)	(379)	(-32)	(385)	(394)
Insured mortgages.....	953	16	-13	-13	-5	3
Provincial securities.....	352	3	-25	7	21	-22
Municipal securities.....	231	-5	9	-	24	4
Corporate securities.....	470	-11	-28	-17	15	-39
Sub-total: less liquid assets....	8,756	17	322	-55	440	338
Total of major assets.....	14,015	86	666	3	1,211	753
	=====	=====	=====	=====	=====	=====

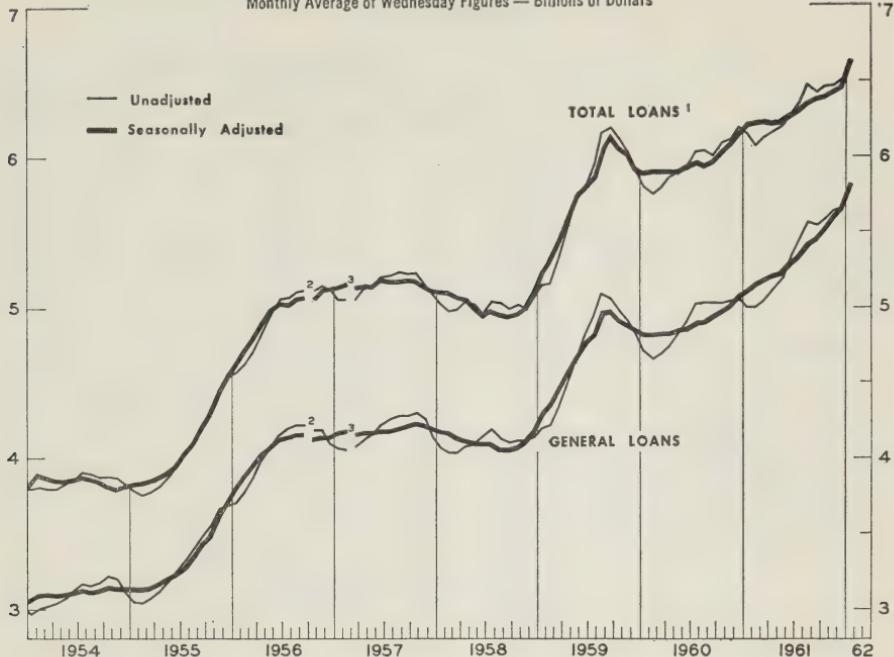
Dec. 1961	Seasonally Adjusted			
	Increase during:			
	1960		1961	
	I Half	II Half	I Half	II Half
Total loans (excluding call loans and Canada Savings Bond loans) <sup>(1)</sup> .....	6,449	9	226	118
General loans <sup>(1)</sup> .....	5,653	10	226	206
Business loans <sup>(2)</sup> .....	3,628	12	119	44

(1) Monthly averages of Wednesday figures. Changes shown are from December average to June average or vice versa.

(2) Month-end figures.

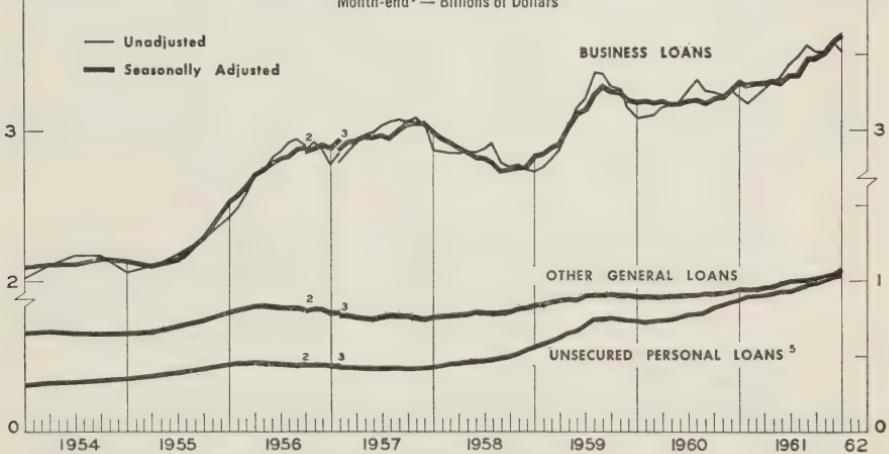
### CHARTERED BANK LOANS

Monthly Average of Wednesday Figures — Billions of Dollars



### COMPONENTS OF GENERAL LOANS

Month-end<sup>4</sup> — Billions of Dollars



1. Excludes call loans and loans for the purchase of Canada Savings Bonds.

2. Breaks reflect exclusion of certain foreign currency loans previously included in these series.

3. Breaks reflect reallocation of inner reserves consequent upon securities revaluation.

4. Plotted at quarter-ends for 1954 and 1955.

5. Excludes home improvement loans.

**CHARTERED BANKS**  
**CLASSIFICATION OF GENERAL LOANS**

(millions of dollars)

	<b>As at Dec. 31 1961</b>	<b>Increase or decrease (—) during year:</b>			
		<b>1958</b>	<b>1959</b>	<b>1960</b>	<b>1961</b>
<b>Business loans</b>					
Under authorizations of:					
less than \$100,000.....	1,198	70	67	85	135
\$100,000 to \$1 million.....	1,113	42	133	51	127
\$1 million to \$5 million.....	737	—68	114	39	49
\$5 million and over.....	474	—185	38	—39	—7
	—	—	—	—	—
Total business loans.....	3,523	—141	351	136	303
<b>Personal loans</b>					
Fully secured by marketable bonds and stocks.....	336	30	—5	4	49
Home improvement loans.....	66	10	2	—4	10
Other.....	1,030	133	165	138	173
	—	—	—	—	—
Total personal loans.....	1,431	173	163	138	232
<b>Loans to farmers</b> .....	485	19	22	30	65
<b>Loans to non-business institutions</b> .....	208	25	28	26	14
	—	—	—	—	—
Total general loans.....	5,647	75	564	331	615
	—	—	—	—	—

**BANK OF CANADA OPERATIONS.** In 1961 the public's holdings of Bank of Canada notes\* rose by \$68 million and the chartered banks' holdings of notes in their vaults and tills rose by \$17 million while their balances on deposit at the Bank of Canada rose by \$87 million. In the course of providing these increases in currency in circulation and in chartered bank cash reserves, the Bank of Canada added \$136 million to its holdings of Government securities; its holdings of capital stock and debentures of the Industrial Development Bank increased by \$26 million.

#### BANK OF CANADA ASSETS AND LIABILITIES

(millions of dollars)

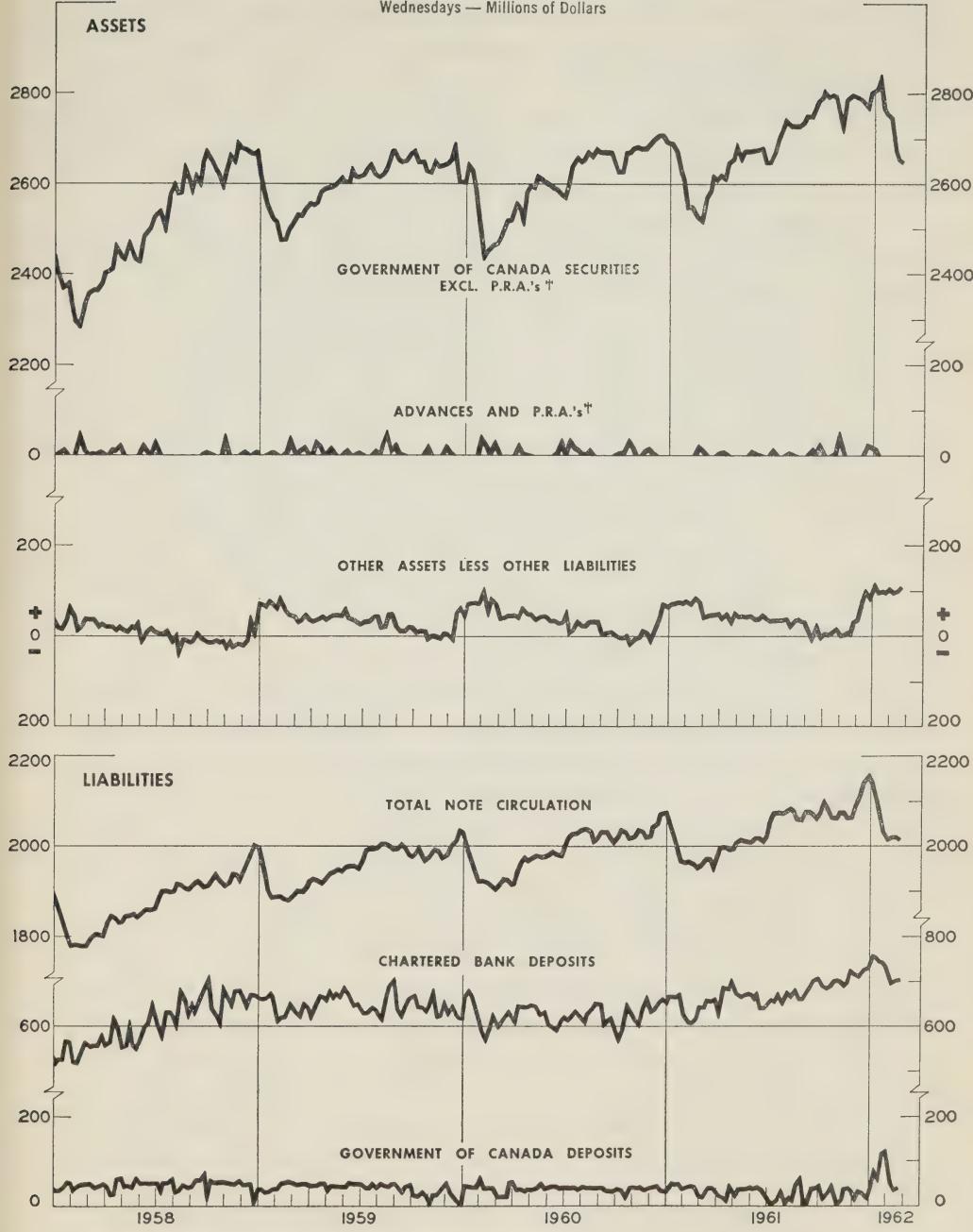
	<u>As at Dec. 31, 1961</u>	<u>Change During 1961</u>
<b>Assets</b>		
Treasury bills.....	312	-92
Government bonds.....	2,513	228
Industrial Development Bank securities.....	115	26
All other assets.....	303	36
 Total.....	 3,243	 198
 <b>Liabilities</b>	 =====	 =====
Notes held by public.....	1,800	68
Notes held by chartered banks.....	347	17
Deposits of chartered banks.....	749	87
All other liabilities.....	347	26
 Total.....	 3,243	 198
	=====	=====

The average cash ratio maintained by the chartered banks in 1961 was 8.12 per cent compared with 8.17 per cent in 1960. Details on cash reserves and cash reserve requirements for 1960 and 1961 are given in the Appendix on pages 64 and 65. Bank of Canada advances to banks were outstanding on 10 business days during 1961 compared with 25 days in 1960; the maximum amount outstanding on any one day was \$11 million and the daily average for the year was \$0.2 million. The Bank of Canada held securities purchased from money market

\* A table giving the composition of Bank of Canada note liabilities appears on page 76.

### BANK OF CANADA ACCOUNTS

Wednesdays — Millions of Dollars



dealers under resale agreements on 55 business days during the year compared with 75 days the previous year; the maximum amount outstanding on any one day was \$93 million and the daily average for the year was \$3 million.

In order to offset the effect on cash reserves in February and March of seasonal changes in statutory till money, the Bank of Canada sold to the Securities Investment Account of the Government \$40 million of Government bonds for delivery on February 1 and repurchase on March 1.

At the end of October the Bank made temporary advances to the Government of Canada which were outstanding on 4 business days and which were repaid by November 6 out of the proceeds of the annual Canada Savings Bond campaign, and during the same period the Government's balances at the central bank were reduced to a minimum level. In order to avoid the substantial swings in the chartered banks' cash reserves which would otherwise have occurred, arrangements were made for this short period under which the Bank of Canada undertook to sell short-term treasury bills on a repurchase basis to the banks with temporary surplus reserves. The rate of interest involved was equivalent to the day-to-day loan rate prevailing at that time. The maximum amount of these repurchase agreements outstanding was \$105 million; this approximately offset the effect of advances to the Government, which reached a maximum of \$72 million, and of the reduction of the Government's balance at the Bank of Canada to a minimum level.

During the month of December the net earnings of the Bank of Canada for 1961 were transferred to the Receiver General of Canada in several instalments totalling \$107.7 million. These transfers and the redeposit in Government accounts with the chartered banks were used to offset the effect on cash reserves of the usual sharp seasonal rise in note circulation.

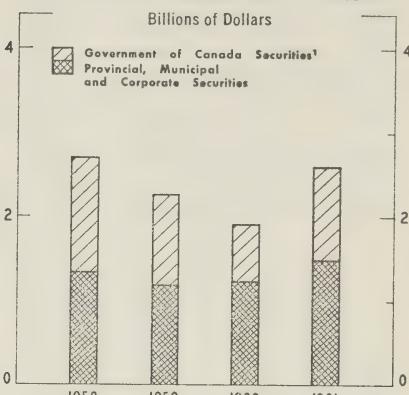
Bank rate, the minimum rate at which the Bank makes advances to banks and the Government, was maintained at a level of  $\frac{1}{4}$  of 1 per cent above the average rate on three-month treasury bills at each weekly tender. It was 3.50 per cent at the beginning of the year, reached a low point of 2.51 per cent at the end of August and stood at 3.24 per cent at the close of the year. A more general reference to the subject of Bank rate is made earlier in this Report.

**SECURITIES MARKETS.** As recorded in the table on pages 56 and 57 the total amount of new money raised through the sale of new issues of securities payable in Canadian dollars rose to \$2.6 billion in 1961 from \$1.9 billion in 1960, and net new issues of securities payable in foreign currencies amounted to about \$100 million in each year.

Provincial and municipal governments, corporations and institutions raised a total of \$1,504 million in the Canadian securities markets in 1961, \$260 million more than they had raised in 1960, and also more than in either 1958 or 1959. The high level of new issues of provincial bonds was responsible for most of the increase in 1961. Net new issues of provincial bonds payable in Canadian dollars rose to \$924 million in 1961 compared with \$459 million in 1960. One factor contributing to this increase was the issue of guaranteed bonds amounting to \$205 million by one of the provinces to finance the expropriation of a privately-owned utility company. Municipal governments raised \$265 million in the Canadian securities markets in 1961 compared with \$234 million in 1960, while corporations and institutions raised \$506 million, or a net amount of \$316 million after allowing for the distribution of \$86 million to the shareholders of the parent company of the utility taken over by the provincial government and the exchange of \$104 million of preferred stock for bonds guaranteed by the province, compared with \$551 million in 1960. While corporations raised less money by the sale of bonds and preferred stocks, they raised more by the sale of common stocks in 1961 than in 1960. Finance companies reduced the amount of their short-term paper outstanding in 1961; in 1960 this had gone up slightly.

Most of the foreign-pay securities delivered in 1961 represented the completion of transactions initiated in 1960 or early in 1961 by corporations engaged in the production or transportation of oil, gas and petro-chemicals. Net new issues of corporate bonds payable in foreign currencies amounted to \$101 million in 1961 whereas in 1960 the amount raised in foreign currencies was offset by retirements. Municipalities, which had raised \$85 million in foreign securities markets in 1960, made net retirements of \$12 million in 1961. Provinces raised only minor amounts in foreign securities markets in both years.

**NET NEW ISSUES OF SECURITIES PAYABLE IN CANADIAN DOLLARS**



1. Government of Canada securities held outside Government accounts.

**NET NEW ISSUES OF SECURITIES<sup>(1)</sup>**

(millions of dollars)

	<b>Payable in Canadian Dollars Only</b>			
	<b>1958</b>	<b>1959</b>	<b>1960</b>	<b>1961</b> (Est.)
<b>Government of Canada securities<sup>(2)</sup></b>				
Total.....	1,253	871	613	944
Held in Government Accounts.....	-110	-206	-57	-165
Held outside Government Accounts.....	1,363	1,077	670	1,109
 Provincial, municipal and corporate and other securities				
Provincial bonds <sup>(2)</sup> .....	470	329	459	924 <sup>(3)</sup>
Municipal bonds <sup>(2)</sup> .....	208	213	234	265
Corporate bonds.....	469	93	290	178
Other bonds <sup>(4)</sup> .....	4	18	21	27
Total bonds.....	1,151	653	1,005	1,394
Finance company short-term paper <sup>(5)</sup> .....	-111	135	10	-67
Total bonds and short-term paper.....	1,041	788	1,014	1,326
 Corporate stocks <sup>(6)</sup>				
Preferred.....	25	72	52	-61 <sup>(7)</sup>
Common.....	284	330	178	239 <sup>(8)</sup>
Total corporate stocks.....	309	402	230	178
 Total provincial, municipal and corporate and other securities.....				
	1,350	1,190	1,244	1,504
 Total Government of Canada securities held outside Government accounts, provincial, municipal, and corporate and other securities.....				
	2,713	2,267	1,915	2,613

(1) Gross new issues less retirements.

(2) Includes guaranteed securities.

(3) Includes the new issue of \$104 million of bonds guaranteed by B.C. in exchange for preferred stock of B.C. Electric Co.

(4) Consists of bonds of religious and other institutions and Canadian dollar issues of the Commonwealth of Australia.

(5) Paper with an original term to maturity of one year or less.

(6) Canadian stock issues with dividends payable in U.S. dollars are shown under "Other Currencies".

(7) Includes the retirement of \$104 million of preferred stock referred to in footnote (3).

(8) After deducting the distribution of \$86 million to shareholders of B.C. Power Corp.

Payable in Other Currencies				Total			
1958	1959	1960	1961 (Est.)	1958	1959	1960	1961 (Est.)
-2	-149	-1	-55	1,252	723	612	889
1	-129	-	-56	-109	-335	-57	-221
-3	-19	-1	2	1,360	1,058	669	1,110
144	239	17	7	614	568	477	931 <sup>(3)</sup>
115	113	85	-12	323	326	319	252
184	15	-1	101	653	109	288	279
-	-	-	-	4	18	21	27
443	367	101	96	1,594	1,020	1,106	1,489
-	-	-	-	-111	135	10	-67
443	367	101	96	1,484	1,155	1,115	1,422
-	-	-	-	25	72	52	-61 <sup>(7)</sup>
2	2	5	3	287	331	183	242 <sup>(8)</sup>
2	2	5	3	312	404	235	181
446	369	106	99	1,796	1,559	1,351	1,603
443	350	105	101	3,156	2,617	2,020	2,714

An industrial classification of net new issues of corporate securities sold in the Canadian and foreign securities markets is given in the Appendix on page 74.

The Government of Canada made seven offerings of market bonds in 1961 amounting in total to \$2,200 million. From the proceeds, \$100 million of treasury bills with an original term to maturity of one year were retired, \$746 million of maturing bonds were redeemed at maturity and \$600 million of bonds held by the Bank of Canada were retired in advance of maturity. In addition, \$496 million of market securities held by various Government accounts were cancelled as follows: \$52 million of securities payable in United States dollars held in sinking funds, \$182 million held in Securities Investment Account, \$61 million in the Purchase Fund and \$201 million previously held by the Unemployment Insurance Fund. The Government issued 3½ per cent non-market bonds to the Unemployment Insurance Fund and the total amount of such bonds outstanding at December 31, 1961 was \$157 million. Total sales of Canada Savings Bonds during the year amounted to \$1,067 million while total redemptions and maturities of all series amounted to \$582 million so that the net increase during the year was \$486 million. Further details of the new issues, retirements, and cancellations of Government securities are given in the Appendices on pages 66 to 69.

One way of summarizing the financing operations of the Government of Canada in 1961 is given in the table on page 59. Put in this form the data show that a net amount of \$118 million was used by Government accounts to acquire Government securities (including the purchase of \$99 million of long-term bonds by the Purchase Fund established at the time of the June 1961 budget), that \$84 million was added to the Government's cash balances, that \$233 million was used to finance additions to the Government's holdings of gold and United States dollars and \$51 million to finance the encashment of part of Canada's subscription to the International Monetary Fund for use in connection with the United Kingdom drawing on the Fund referred to on page 15, and that a net amount of \$742 million was used for all other purposes.

## SUMMARY OF GOVERNMENT OF CANADA FINANCING, 1961

(par values, millions of dollars)

Gross new issues of securities		
Direct market bonds .....	2,200	
Canada Savings Bonds.....	1,067	
	—	
Total.....	3,267	
Deduct:		
Net retirements of treasury bills.....	100	
Gross retirements		
Direct market issues — at maturity.....	746	
— in advance of maturity.....	600	
Canada Savings Bonds.....	582	
Guaranteed bonds.....	5	
Decline in matured securities outstanding.....	7	
	—	
Sub-total.....	2,039	
	1,228 <sup>(1)</sup>	
Net purchases of market securities by all Government accounts....	118 <sup>(2)</sup>	
Sub-total (equals increase in securities held outside Government accounts).....	1,110	
Increase in Government cash balances.....	84	
Sub-total.....	1,026	
Advances to the Exchange Fund Account.....	233	
Encashment of subscription to the International Monetary Fund....	51	
	—	
284		
Funds used for all other purposes (net).....	742	
	—	

(1) To obtain the change in the total amount of Government securities outstanding during the year it is necessary to add the net issue of \$157 million of non-market bonds to the Unemployment Insurance Fund and to deduct the cancellation of \$496 million of market bonds held in Government accounts, making a net increase of \$889 million in Government securities outstanding.

(2) Excluded from this amount are the items described in footnote (1) which involved no transfer of cash. The changes in Government account holdings may be summarized as follows:

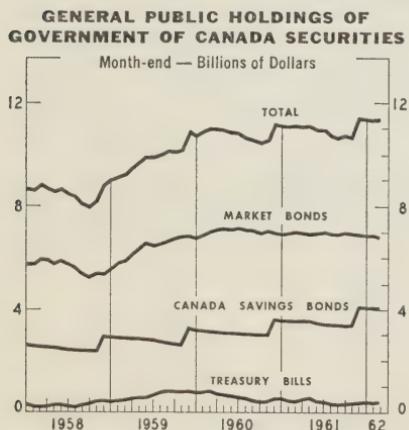
Net issue of non-market bonds to Unemployment Insurance Fund.....	157
Cancellation of market bonds.....	—496
Net purchases of market securities by all Government accounts.....	118
	—
Total change in Government account holdings.....	—221
	—

On each of the seven offerings of market bonds in 1961 the Bank of Canada acquired part or in some instances all of a new issue either for cash, or in exchange for holdings of maturing bonds, or in advance refunding of part of its holdings of near-by maturities. The near-by maturities which were subsequently refunded were acquired by the Bank of Canada in secondary dealing, largely by switching out of slightly longer-term issues, and this process contributed to an orderly marketing programme during this active period of debt management. For example, the 3 per cent Conversion Loan due December 1, 1961, originally issued in 1958 in an amount of \$1,021 million, had in this way been reduced in five operations to the more manageable figure of \$445 million outstanding immediately prior to the final refunding offering. The issues acquired by the Bank from the Government in advance refundings in 1961 included securities maturing in 1964, 1966 and 1967, some of which were in due course sold in the market in response to firm bids from investment dealers and chartered banks. As the term of these issues was somewhat longer than that of the new issues originally offered by the Government to the public these sales by the Bank of Canada served to offset, in a modest degree, the automatic shortening of the average term of debt which occurs with the passage of time and the shortening involved in the concentration of new public offerings in the short end of the market.

The 1961 series of Canada Savings Bonds, announced on September 18, was dated November 1, 1961, to mature in 10 years and provide an average yield of 4.60 per cent if held to maturity. Interest payable annually was graduated to provide 4½ per cent the first year, 4½ per cent for each of the next six years and 5 per cent for each of the remaining three years. By December 31 total sales

of this issue amounted to \$932 million compared with sales of \$826 million of the 1960 series during the comparable period of the year. This included payroll sales of the 1961 series of \$223 million compared with \$216 million of the 1960 series.

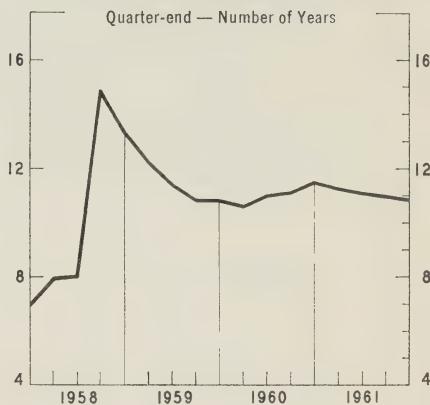
In 1961 non-bank investors added \$243 million to their holdings of Government securities, \$112 million less than the amount they acquired in 1960. Substantial increases in the public's holdings of Canada Savings Bonds in 1961 were offset in part by reductions



in their holdings of treasury bills and market bonds. Treasury bill holdings were reduced by \$144 million in 1961 compared with \$206 million in 1960, while public holdings of market bonds declined by \$99 million in 1961 compared with an increase of \$179 million in 1960. Net purchases of Canada Savings Bonds were \$486 million in 1961 compared with \$382 million in 1960. Some details of the distribution of holdings of various classes of Government of Canada securities by class of holder are given in the Appendix on page 70.

All the new issues of Government of Canada market securities sold in 1961 were of short or medium term. The average term to maturity of market issues outstanding shortened by one year and one month and stood at 8 years 4 months at December 31. The average term to maturity of the general public's holdings of market issues shortened by 8 months and stood at 10 years 10 months at the end of the year. In the United States the average term to maturity of the general public's holdings of market issues was about 5 years shorter than that in Canada at the end of the year. Details of Government of Canada securities outstanding classified by term to maturity are shown in the Appendix on page 71.

**AVERAGE TERM TO MATURITY OF  
GENERAL PUBLIC HOLDINGS OF  
GOVERNMENT OF CANADA MARKET  
SECURITIES**

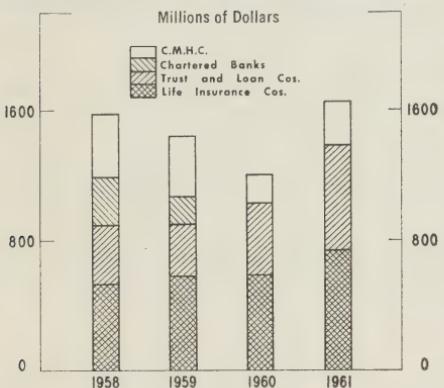


**MORTGAGE MARKET.** Earlier in this Report information is given regarding the funds raised through the securities markets and chartered banks. In addition private borrowers raise substantial amounts each year in the mortgage markets. The net increase in the mortgage portfolio of life insurance companies in Canada is estimated to have been about \$275 million in 1961, \$50 million more than in 1960, and the available information suggests that the net increase in the mortgage portfolio of trust and mortgage loan companies was much larger in 1961 than in earlier years. Further details on mortgage lending of the major financial institutions are given in the Appendix on page 72. No information is available on the amount of mortgage lending by non-financial corporations or individuals.

The most current information available on mortgage lending relates to mortgage loan approvals by lending institutions and the Central Mortgage and Housing Corporation; in aggregate they approved loans on new and existing

residential and commercial property amounting to \$1,654 million in 1961 compared with \$1,201 million in 1960. The chartered banks made virtually no new mortgage loans in 1960 or 1961; their mortgage loans outstanding declined after mid-1960 as the amount of principal repayments exceeded disbursements on new loans. Other lending institutions increased their mortgage loan approvals from \$1,032 million in 1960 to \$1,383 million in 1961. The trust and mortgage loan companies accounted for a large part of this in-

**MORTGAGE LOANS APPROVED BY  
LENDING INSTITUTIONS AND CENTRAL  
MORTGAGE AND HOUSING CORPORATION**

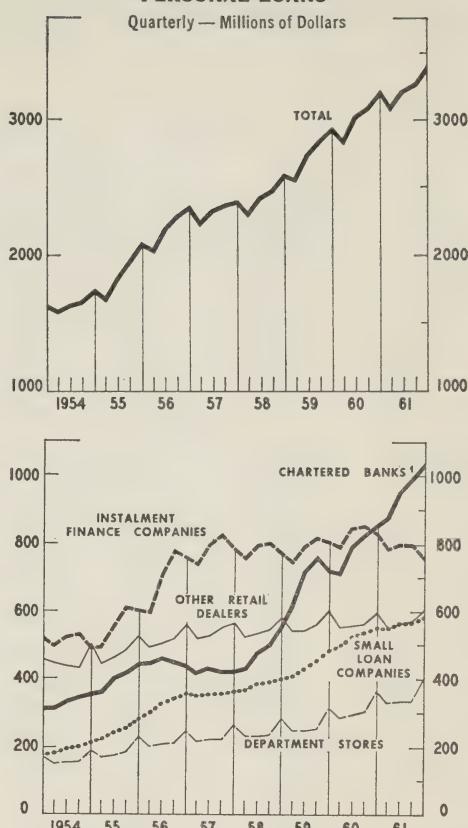


crease; their approvals of residential mortgage loans insured under the National Housing Act rose very sharply during the year, their approvals of other mortgage loans on new residential property declined slightly, and their other mortgage loans rose considerably. Life insurance companies also increased their mortgage loan approvals in 1961. The Central Mortgage and Housing Corporation approved loans amounting to \$271 million in 1961 as compared with \$168 million in 1960. Further details on mortgage loan approvals appear in the Appendix on page 73.

In its continuing endeavour to promote a secondary market in mortgages, the Central Mortgage and Housing Corporation inaugurated in June 1961 a series of auctions of insured mortgages out of its portfolio. Three auctions were held (in June, August and November) with sales totalling \$41 million.

**CONSUMER CREDIT.** The outstanding amount of credit extended to consumers by finance companies and retail dealers and chartered banks by way of unsecured personal loans (i.e. loans other than those fully secured by marketable bonds and stocks and home improvement loans), after rising by 9 per cent in 1960, increased by almost 6 per cent in 1961. Chartered bank unsecured personal loans again rose sharply in 1961, increasing by 20 per cent in the year or at about the same rate as in 1960. Consumer loans of instalment finance companies were \$68 million lower at the end of 1961 than a year earlier. Credit extended by small loan companies and department stores rose moderately during the year and there was little change in the outstanding credit of other retail dealers. A detailed table appears in the Appendix on page 75.

**FINANCE COMPANY AND RETAIL DEALER CREDIT EXTENDED TO CONSUMERS AND CHARTERED BANK UNSECURED PERSONAL LOANS<sup>1</sup>**



1. Excludes personal loans fully secured by marketable bonds and stocks and home improvement loans.

\* \* \*

## APPENDIX

### CURRENCY OUTSIDE BANKS AND CHARTERED BANK DEPOSITS, STATUTORY DEPOSITS AND CASH RESERVES

(millions of dollars)

#### Currency Outside Banks and Chartered Bank Deposits

#### Monthly Averages of Wednesday Figures

Annual Averages	Total	Currency Outside Banks	Chartered Bank Deposits (excluding float)
1958 .....	12,550	1,655	10,894
1959 .....	13,209	1,730	11,480
1960 .....	13,293	1,762	11,531
1961 .....	14,169	1,815	12,354
<b>Monthly</b>			
1960—Jan.....	13,113	1,699	11,414
Feb.....	13,000	1,690	11,310
Mar.....	13,012	1,715	11,297
Apr.....	13,110	1,732	11,378
May.....	13,140	1,738	11,402
June.....	13,255	1,767	11,488
July.....	13,269	1,788	11,481
Aug.....	13,195	1,798	11,397
Sept.....	13,280	1,784	11,496
Oct.....	13,594	1,791	11,802
Nov.....	13,717	1,809	11,908
Dec.....	13,830	1,816	12,013
1961—Jan.....	13,722	1,756	11,966
Feb.....	13,722	1,751	11,971
Mar.....	13,827	1,774	12,053
Apr.....	13,797	1,775	12,022
May.....	13,833	1,794	12,039
June.....	13,938	1,790	12,149
July.....	14,104	1,838	12,266
Aug.....	14,404	1,849	12,555
Sept.....	14,432	1,840	12,592
Oct.....	14,488	1,850	12,638
Nov.....	14,702	1,866	12,836
Dec.....	15,035	1,894	13,141

(1) Statutory basis, i.e. the average Canadian dollar deposit liabilities for each month are based on the four consecutive Wednesdays ending with the second last Wednesday of the previous month.  
 (2) 8 per cent of gross statutory deposits as shown in preceding column.  
 (3) For each month the cash reserves are equal to the monthly average of the daily figures for chartered bank deposits at the Bank of Canada and the average of chartered bank holdings of Bank of Canada notes for the four consecutive Wednesdays ending with the second last Wednesday of the previous month.

**Statutory Deposits<sup>(1)</sup>****Averages of Statutory Wednesdays**

<b>Chartered Bank Deposits (excluding float)</b>	<b>Float</b>	<b>Total Statutory Deposits</b>	<b>Minimum Cash Reserve Requirement<sup>(2)</sup></b>	<b>Actual Cash Reserves<sup>(3)</sup></b>	<b>Average Cash Reserve Ratio</b>
10,763	687	11,452	916	943	8.23
11,486	701	12,187	975	999	8.20
11,465	587	12,052	964	985	8.17
12,249	555	12,804	1,024	1,040	8.12
11,367	707	12,073	966	1,001	8.29
11,404	581	11,985	959	981	8.18
11,319	548	11,867	949	967	8.15
11,295	552	11,847	948	962	8.12
11,364	547	11,910	953	975	8.19
11,381	576	11,957	957	971	8.12
11,492	602	12,094	967	978	8.08
11,478	639	12,117	969	1,000	8.26
11,392	591	11,983	959	981	8.19
11,453	580	12,033	963	984	8.18
11,742	560	12,303	984	999	8.12
11,891	560	12,452	996	1,019	8.18
12,001	611	12,612	1,009	1,029	8.16
11,985	571	12,556	1,004	1,019	8.11
11,961	484	12,445	996	1,009	8.11
12,052	496	12,548	1,004	1,017	8.10
12,035	526	12,560	1,005	1,018	8.11
12,054	569	12,623	1,010	1,026	8.13
12,094	585	12,679	1,014	1,029	8.12
12,234	556	12,790	1,023	1,040	8.13
12,555	567	13,122	1,050	1,064	8.11
12,569	559	13,128	1,050	1,072	8.17
12,648	578	13,226	1,058	1,076	8.13
12,796	560	13,356	1,068	1,082	8.10

## APPENDIX

**SUMMARY OF NEW ISSUES, RETIREMENTS AND CANCELLATIONS  
OF GOVERNMENT OF CANADA DIRECT MARKET BONDS, 1961<sup>(1)</sup>**

(par values, millions of dollars)

<b>Date of Issue Retirement or Cancellation</b>	<b>Date of Offering of New Issues</b>	<b>New Issues</b>		
		<b>Advance Allotment to Bank of Canada</b>	<b>Public Offering</b>	<b>Total</b>
Feb. 1	Jan. 18	50	100	150
Mar. 1		—	—	—
Mar. 15	Feb. 28	200	75	275
May 1	Apr. 12	100	200	300
June 1	May 17	90	110	200
Aug. 1	July 18	175	175	350
Sept. 15	Sept. 5	200	200	400
Sept. 29		—	—	—
Nov. 7		—	—	—
Dec. 1	Nov. 13	200	325	525
Various				
<b>Total</b>		<b>1,015</b>	<b>1,185</b>	<b>2,200</b>
		<b>=====</b>	<b>=====</b>	<b>=====</b>

(1) Does not include the exchange of \$26 million of 5½% bonds due October 1, 1962 into 5½% bonds due October 1, 1975.

(2) Statistics published by the Bank of Canada exclude Newfoundland securities held by sinking funds and Government account "N" and are not affected by the cancellation of £7.1 million on January 1, 1961.

**Retirements and Cancellations**

<b>At Maturity</b>	<b>Refunding of Bank of Canada Holdings in Advance of Maturity</b>	<b>Cancellation of Government Account Holdings<sup>(2)</sup></b>	<b>Total</b>	<b>Net Change in Market Bonds Outstanding</b>
-	50	100	150	-
-	-	40	40	-40
-	125	12	137	138
300	-	-	300	-
-	50	-	50	150
-	175	-	175	175
-	200	-	200	200
-	-	201	201	-201
-	-	143	143	-143
445	-	-	445	80
1	-	-	1	-1
—	—	—	—	—
746	600	496	1,842	358
==	==	==	==	==

## APPENDIX

## NEW ISSUES, RETIREMENTS AND CANCELLATIONS OF GOVERNMENT SECURITIES

Type of Security	Date of Issue, Retirement or Cancellation	Amount—par values	
		(millions of dollars)	Retirements or Cancellations
		New Issues	100
Treasury bills (net) <sup>(1)</sup>			
Direct Market Bonds <sup>(2)</sup>	Feb. 1	150	
	Feb. 1		150 <sup>(3)</sup>
	Mar. 1		40 <sup>(4)</sup>
	Mar. 15	175	
	Mar. 15	100 <sup>(5)</sup>	
	Mar. 15		75 <sup>(7)</sup>
	Mar. 15		50 <sup>(7)</sup>
	Mar. 15		12 <sup>(4)</sup>
	May 1	190	
	May 1	110	
	May 1		300
	June 1	200 <sup>(8)</sup>	
	June 1		50 <sup>(7)</sup>
	Aug. 1	110	
	Aug. 1	240	
	Aug. 1		175 <sup>(7)</sup>
	Sept. 15	225	
	Sept. 15	175	
	Sept. 15		100 <sup>(7)</sup>
	Sept. 15		40 <sup>(7)</sup>
	Sept. 15		60 <sup>(7)</sup>
	Sept. 29		41 <sup>(9)</sup>
	Sept. 29		16 <sup>(9)</sup>
	Sept. 29		39 <sup>(9)</sup>
	Sept. 29		23 <sup>(9)</sup>
	Sept. 29		32 <sup>(9)</sup>
	Sept. 29		50 <sup>(9)</sup>
	Nov. 7		** <sup>(10)</sup>
	Nov. 7		1 <sup>(10)</sup>
	Nov. 7		60 <sup>(10)</sup>
	Nov. 7		17 <sup>(10)</sup>
	Nov. 7		7 <sup>(10)</sup>
	Nov. 7		3 <sup>(10)</sup>
	Nov. 7		8 <sup>(10)</sup>
	Nov. 7		46 <sup>(10)</sup>
	Nov. 7		1 <sup>(10)</sup>
	Dec. 1	175	
	Dec. 1	250	
	Dec. 1	100	
	Dec. 1		445
	Various		1
		2,200	1,842
Canada Savings Bonds		1,067	582
Other non-market bonds <sup>(11)</sup>	Sept. 29	139	
	Oct. 1-Dec. 31	23	5
Guaranteed bonds	May 19		2
	Dec. 18		3 <sup>(12)</sup>
Matured and outstanding bonds			7
Total <sup>(13)</sup>		3,429	2,540

(1) Treasury bills with an original term to maturity of one year.

(2) Does not include the exchange of \$26 million of 5 1/2% bonds due October 1, 1962 into 5 3/4% bonds due October 1, 1975.

(3) Includes the cancellation of \$100 million held by Government Securities Investment Account and the conversion of \$50 million held by the Bank of Canada.

(4) Cancellation of Government sinking fund holdings.

(5) After notice.

(6) Includes partial advance refunding of \$50 million of treasury bills maturing June 2, 1961.

(7) Conversion of part of issue held by the Bank of Canada.

**CANADA DIRECT AND GUARANTEED SECURITIES, 1961**

<b>Currency of Payment</b>	<b>Coupon Rate %</b>	<b>Maturity</b>	<b>Earliest Call Date</b>	<b>Issue or Conversion Price</b>	<b>Yield %</b>
C					
C	4	May 1/64	NC	98.50	4.50
C	3	May 1/61	NC		
US	2 3/4	Sept. 1/74	30 days <sup>(8)</sup>		
C	3 1/2	Dec. 15/62	NC	99.40	3.86
C	4	May 1/64	NC	98.75	4.43
C	3	May 1/61	NC		
C	3	Dec. 1/61	NC		
US	2 3/4	Sept. 15/75	30 days <sup>(8)</sup>		
C	3	May 1/62	NC	99.25	3.77
C	4	May 1/64	NC	98.25	4.63
C	3	May 1/61	NC		
C	3 1/2	Dec. 15/62	NC	98.75	4.35
C	3	Dec. 1/61	NC		
C	3	Aug. 1/62	NC	99.70	3.31
C	4	Dec. 1/64	NC	99.00	4.32
C	3	Dec. 1/61	NC		
C	3	Aug. 1/62	NC	99.75	3.29
C	4 1/2	Dec. 15/66	NC	99.25	4.66
C	3	Dec. 1/61	NC		
C	3	May 1/62	NC		
C	3	June 15/62	NC		
C	2 3/4	June 15/68	June 15/67		
C	4 1/4	Sept. 1/72	NC		
C	3 1/4	June 1/76	June 1/74		
C	3 3/4	Jan. 15/78	Jan. 15/75		
C	3 1/4	Oct. 1/79	NC		
C	3 3/4	Mar. 15/98	Sept. 15/96		
C	3	Dec. 1/61	NC		
C	3 3/4	Sept. 1/65	NC		
C	4 1/4	Sept. 1/72	NC		
C	5 1/2	Oct. 1/75	NC		
C	3 1/4	June 1/76	June 1/74		
C	3 3/4	Jan. 15/78	Jan. 15/75		
C	3 1/4	Oct. 1/79	NC		
C	4 1/2	Sept. 1/83	NC		
C	3 3/4	Mar. 15/98	Sept. 15/96		
C	2 9/4	June 1/63	NC	99.00	3.44
C	3 1/4	Oct. 1/64	NC	98.80	3.70
C	4 1/4	June 1/67	NC	99.50	4.35
C	3	Dec. 1/61	NC		
£					
C					
C	3 3/4				
C	3 3/4				
£	3 1/2	May 19/61	NC		

(8) Includes refunding of \$50 million of treasury bills maturing June 2, 1961.

(9) Cancellation of securities previously held by the Unemployment Insurance Fund.

(10) Cancellation of securities held by Government Securities Investment Account and Purchase Fund.

(11) Held by Unemployment Insurance Fund.

(12) Retirement through C.N.R. purchase fund holdings of small amounts of several issues.

(13) Includes net change in treasury bills outstanding.

\*\* Less than \$0.5 million.

## APPENDIX

GOVERNMENT OF CANADA DIRECT AND GUARANTEED SECURITIES  
DISTRIBUTION OF HOLDINGS

(par values, millions of dollars)

As at Dec. 31 1961	Increase or decrease (-) during:					
	1960		1961		Year 1960	Year 1961
	I Half	II Half	I Half	II Half		
<b>Held Outside Government Accounts</b>						
Bank of Canada						
Treasury bills.....	314	87	11	-129	35	98
Other market issues.....	2,563	-101	70	98	127	-31
Total.....	2,876	-14	81	-31	163	67
Chartered Banks						
Treasury bills.....	1,162	-19	9	172	16	-10
Other market issues.....	2,631	141	116	151	395	256
Total.....	3,792	122	124	324	412	247
General Public						
Treasury bills.....	405	-164	-43	-90	-54	-206
Other market issues.....	6,838	392	-213	66	-165	179
Canada Savings Bonds.....	4,080	-153	535	-121	607	382
Total.....	11,323	75	280	-145	388	355
<b>Total</b>						
Treasury bills.....	1,880	-95	-23	-47	-2	-118
Other market issues.....	12,031	432	-27	316	358	405
Canada Savings Bonds.....	4,080	-153	535	-121	607	382
Total.....	17,992	184	485	148	963	669
<b>Held in Government Accounts</b>						
Unemployment Insurance Fund						
Treasury bills.....	-	-15	45	-52	-	29
Other market issues.....	-	-161	-20	-22	-242	-181
Non-market issues.....	157	-	-	-	157	-
Total.....	157	-176	25	-74	-85	-151
Securities Investment Account						
Treasury bills.....	-	-	-	-	-	-
Other market issues.....	41	-	53	-20	-42	53
Total.....	41	-	53	-20	-42	53
Purchase Fund						
Market issues.....	38	-	-	-	38	-
Total.....	38	-	-	-	38	-
Other Government Accounts						
Treasury bills.....	5	-2	-2	-1	2	-3
Other market issues.....	404	33	12	-37	-2	45
Total.....	408	32	10	-39	-	42
<b>Total</b>						
Treasury bills.....	5	-17	43	-53	2	26
Other market issues.....	483	-127	45	-80	-248	-83
Non-market issues.....	157	-	-	-	157	-
Total.....	644	-144	87	-133	-88	-57
<b>Total Outstanding</b>						
Treasury bills.....	1,885	-112	20	-100	-	-92
Other market issues.....	12,514	304	17	236	110	322
Canada Savings Bonds.....	4,080	-153	535	-121	607	382
Other non-market issues.....	157	-	-	-	157	-
Total.....	18,636	40	573	15	874	612
						889

## APPENDIX

GOVERNMENT OF CANADA DIRECT AND GUARANTEED SECURITIES  
CLASSIFIED BY TERM TO MATURITY

(par values, millions of dollars)

	As at Dec. 31 1961	Increase or decrease (--) during:					
		1960		1961		Year 1960	Year 1961
		I Half	II Half	I Half	II Half		
<b>Total Amount Outstanding</b>							
Treasury bills.....	1,885	-112	20	-100	-	-92	-100
Other market issues.....							
2 years and under.....	3,184	-597	-35	727	207	-632	934
Over 2 years and up to 5 years	2,770	600	1,076	-405	368	1,676	-36
Over 5 years and up to 10 years	978	280	-1,194	5	-187	-914	-182
Over 10 years.....	5,582	22	171	-91	-277	193	-369
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total market issues</b>							
(bonds and treasury bills)....	14,399	193	37	136	110	230	246
Canada Savings Bonds.....	4,080	-153	535	-121	607	382	486
Other non-market issues.....	157	-	-	-	157	-	157
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total.....</b>	<b>18,636</b>	<b>40</b>	<b>573</b>	<b>15</b>	<b>874</b>	<b>612</b>	<b>889</b>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Average maturity of market issues.....	8 yrs. 4 mo.	-	-1 mo.	-5 mo.	-8 mo.	-1 mo.	-1 yr. 1 mo.
<b>Amount Held by General Public</b>							
Treasury bills.....	405	-164	-43	-90	-54	-206	-144
Other market issues.....							
2 years and under.....	1,522	-386	-67	381	-32	-454	349
Over 2 years and up to 5 years	952	388	142	-305	56	530	-248
Over 5 years and up to 10 years	485	189	-468	22	-96	-279	-74
Over 10 years.....	3,880	201	181	-32	-93	382	-125
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total market issues</b>							
(bonds and treasury bills)....	7,243	228	-255	-24	-219	-28	-242
Canada Savings Bonds.....	4,080	-153	535	-121	607	382	486
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total.....</b>	<b>11,323</b>	<b>75</b>	<b>280</b>	<b>-145</b>	<b>388</b>	<b>355</b>	<b>243</b>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Average maturity of market issues.....	10 yrs. 10 mo.	2 mo.	6 mo.	-5 mo.	-3 mo.	8 mo.	-8 mo.

## APPENDIX

**NET INCREASE IN MORTGAGE LOANS OUTSTANDING  
HELD BY MAJOR FINANCIAL INSTITUTIONS**

(millions of dollars)

	<b>1954</b>	<b>1955</b>	<b>1956</b>	<b>1957</b>	<b>1958</b>	<b>1959</b>	<b>1960</b>	<b>1961</b>
Chartered banks <sup>(1)</sup> .....	74	219	200	93	204	178	3	-18
Life insurance companies								
in Canada <sup>(2)</sup> .....	230*	295	310	245	160	260	225	275*
Trust companies.....	28	48	39	5	66	62	57	n.a.
Mortgage loan companies.....	44	43	49	21	45	56	68	n.a.
Credit unions.....	16	40	25	26	33	46	46	n.a.
Quebec savings banks.....	6	7	10	11	10	7	3	16
Sub-total.....	398	652	633	401	518	609	402	n.a.
Trusteed pension funds.....	n.a.	n.a.	n.a.	n.a.	51	48	21	n.a.
Total.....	n.a.	n.a.	n.a.	n.a.	569	657	423	n.a.
	<hr style="border-top: 1px solid black;"/>							

(1) Chartered bank mortgage loans are also included in the compilation of funds borrowed through the securities markets and banking systems given on pages 40 and 41.

(2) Gross mortgage loan disbursements and repayments of life insurance companies in Canada have been estimated by the Bank of Canada as follows:

	<b>1954</b>	<b>1955</b>	<b>1956</b>	<b>1957</b>	<b>1958</b>	<b>1959</b>	<b>1960</b>	<b>1961</b>
Gross disbursements.....	380	470	510	450	400	510	490	575
Repayments.....	150	175	200	205	240	250	265	300
Net increase (as above).....	230*	295	310	245	160	260	225	275*
	<hr style="border-top: 1px solid black;"/>							

\*Bank of Canada estimate.

## APPENDIX

**MORTGAGE LOANS APPROVED BY LENDING INSTITUTIONS  
AND CENTRAL MORTGAGE AND HOUSING CORPORATION**

(millions of dollars)

	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>
<b>Lending Institutions</b>				
Chartered banks				
New residential—NHA loans <sup>(1)</sup> .....	300	175	1	—
Life insurance companies				
New residential				
NHA loans <sup>(1)</sup> .....	171	113	177	257
Other loans.....	181	239	201	238
Other.....	178	225	210	242
Total.....	530	577	588	737
Trust, mortgage loan and other companies				
New residential				
NHA loans <sup>(1)</sup> .....	47	19	64	195
Other loans.....	109	104	106	96
Other.....	205	199	274	355
Total.....	361	322	444	646
Total.....	1,192	1,075	1,033	1,383
Central Mortgage and Housing Corporation.....	389	367	168	271
<b>Total Lending Institutions and Central Mortgage and Housing Corporation.....</b>	<b>1,581</b>	<b>1,442</b>	<b>1,201</b>	<b>1,654</b>

(1) Loans insured under the National Housing Act.

APPENDIX

**NET NEW ISSUES OF CORPORATE SECURITIES<sup>(1)</sup>**

**Industrial Classification of Bonds, Stocks and  
Finance Company Short-Term Paper**

(millions of dollars)

	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>
<b>Non-financial corporations</b>				
Natural resource industries				
Uranium mines.....	44	-30	-73	-116
Other non-ferrous metal mines and products...	39	-16	-7	-6
Non-metallic mines and products.....	19	6	8	-5
Petroleum and products.....	153	27	15	39
Wood and paper and products.....	36	-14	13	29
Sub-total.....	290	-27	-45	-59
Other manufacturing industries				
Iron and steel and products.....	30	32	4	44
Other manufactured products.....	41	1	59	74
Sub-total.....	71	33	63	118
Utilities				
Railways and telegraphs.....	57	-25	-16	-15
Telephones.....	130	166	141	152
Pipelines.....	105	-13	47	121
Other utilities.....	193	131	40	-120
Sub-total.....	485	259	211	139
Merchandisers.....	25	43	75	109
Other.....	5	9	12	5
Total.....	876	317	316	311
<b>Financial corporations</b>				
Instalment finance and small loan companies.....	-115	194	108	-7
Other finance, insurance and real estate.....	94	136	110	88
Total.....	-21	330	218	81
<b>Total</b> .....	<b>855</b>	<b>647</b>	<b>533</b>	<b>392</b>

(1) Does not include issues guaranteed by provincial governments (e.g. net new issues of provincial hydro commissions which amounted to \$276 million in 1958, \$167 million in 1959, \$165 million in 1960, and \$480 million in 1961.)

APPENDIX

**CONSUMER CREDIT AND OTHER LOANS TO INDIVIDUALS<sup>(1)</sup>**  
(millions of dollars)

	<b>Balances Outstanding at Dec. 31/61</b>	<b>Increase or decrease (-) in balances outstanding</b>			
		<b>1958</b>	<b>1959</b>	<b>1960</b>	<b>1961</b>
<b>Finance company and retail dealer credit extended to consumers</b>					
Instalment finance companies.....	760	-12	38	22	-68
Small loan companies.....	583	39	83	65	34
Department stores.....	401	20	32	50	33
Other retail dealers.....	605	15	22	-5	13
Sub-total.....	2,349	62	175	132	12
<b>Chartered bank unsecured personal loans<sup>(2)</sup>.....</b>					
Loans <sup>(2)</sup> .....	1,030	133	166	138	173
Total.....	3,379	195	341	270	185
	====	====	====	====	====
<b>Other loans mainly to individuals for non-business purposes</b>					
<b>Chartered banks</b>					
Secured personal loans <sup>(3)</sup> .....	336	30	-5	4	50
Government-guaranteed home improvement loans.....	66	10	2	-4	10
Life insurance company policy loans...	360	10	18	21	16
Quebec savings banks.....	17	-1	1	1	3
Credit unions.....	*	62	77	28	*

(1) Excludes mortgages.

(2) Excludes personal loans fully secured by marketable bonds and stocks and home improvement loans.

(3) Fully secured by marketable bonds and stocks.

\* Not available. Credit unions' non-mortgage loans outstanding at December 31, 1960, amounted to \$425 million.

APPENDIX

**BANK OF CANADA NOTE LIABILITIES**

(as at December 31st. — thousands of dollars)

Notes issued by the Bank of Canada	1950	1958	1959	1960	1961
\$1.....	50,273	75,873	78,402	81,733	86,114
2.....	37,279	53,597	55,076	57,622	60,640
5.....	111,731	143,010	144,702	149,545	156,501
10.....	429,886	533,078	521,309	519,559	533,041
20.....	346,060	627,814	647,276	676,549	719,713
25.....	47	46	46	46	46
50.....	108,735	143,606	145,461	147,596	152,106
100.....	254,457	391,629	395,383	396,328	407,307
500.....	160	49	46	41	38
1,000.....	11,489	15,928	19,549	19,547	18,198
Total.....	1,350,117	1,984,630	2,007,250	2,048,567	2,133,704
Chartered banks' notes*.....	12,487	8,655	8,519	8,423	8,363
Dominion of Canada notes*.....	4,702	4,645	4,641	4,638	4,637
Provincial notes*.....	28	28	28	28	28
Defunct banks' notes*.....	88	88	88	88	88
Total Bank of Canada note liabilities.....	1,367,422	1,998,046	2,020,525	2,061,743	2,146,820
Held by:					
Chartered banks.....	231,306	338,176	315,703	329,841	346,630
Others.....	1,136,116	1,659,870	1,704,822	1,731,902	1,800,190

\*These are note issues which are in the process of being retired and the liability for them has been taken over by the Bank of Canada from the original issuers.

**BANK OF CANADA STATEMENT OF EARNINGS,  
OPERATING EXPENSES AND DISTRIBUTION OF EARNINGS**

(thousands of dollars)

	<u>1961</u>	<u>1960</u>
<b>Earnings</b>		
On investments.....	116,391	99,526
All other earnings.....	958	920
 Total earnings.....	 117,349	 100,446
 <b>Operating Expenses</b>	 <hr/>	 <hr/>
Salaries <sup>(1)</sup> .....	3,566	3,437
Contributions to pension and insurance funds.....	315	303
Other staff expense <sup>(2)</sup> .....	156	159
Directors' fees and expenses.....	24	19
Auditors' fees and expenses.....	75	78
Taxes (inc. municipal and business).....	749	695
RCMP guards and electric protection.....	109	101
Insurance.....	81	84
Bank notes — production and shipment.....	2,863	3,514
Premises and equipment (net).....	251	361
Stationery and printing.....	131	151
Publications <sup>(3)</sup> .....	66	59
Postage and express.....	136	127
Telephones and telegrams.....	165	162
Travel and transfer expense.....	101	136
Interest paid on unclaimed balances.....	49	45
All other expenses.....	71	61
 Total operating expenses.....	 8,908	 9,492
 <b>Distribution of Earnings</b>	 <hr/>	 <hr/>
Operating expenses.....	8,908	9,492
Depreciation on buildings and equipment.....	748	778
Paid to Receiver General of Canada.....	107,693	90,176
 Total earnings.....	 117,349	 100,446
 <hr/>	 <hr/>	 <hr/>

(1) The number of staff averaged 815 in 1961 and 827 in 1960.

(2) Includes overtime pay, medical services and cafeteria expense.

(3) Printing of Statistical Summary and Annual Report.

# BANK OF CANADA • STATEMENT

## ASSETS

	<u>1961</u>	<u>1960</u>
<b>Foreign exchange*</b>		
Pounds sterling and U.S.A. dollars.....	\$ 44,633,333	\$ 54,325,052
Other currencies.....	212,467	165,209
	<u>\$ 44,845,800</u>	<u>\$ 54,490,261</u>
<b>Cheques on other banks</b> .....	<u>\$ 194,682,834</u>	<u>\$ 149,945,973</u>
<b>Accrued interest on investments</b> .....	<u>\$ 26,604,309</u>	<u>\$ 24,598,760</u>
<b>Investments</b> — at amortized values		
Treasury bills of Canada.....	\$ 312,159,070	\$ 404,354,058
Other securities issued or guaranteed by Canada maturing within two years.....	513,922,548	353,433,782
Other securities issued or guaranteed by Canada not maturing within two years.....	1,999,571,699	1,931,943,841
Debentures issued by Industrial Development Bank.....	88,007,223	64,378,939
Other securities — U.S.A. Government*.....	24,956,836	24,357,001
	<u>\$2,938,617,376</u>	<u>\$2,778,467,621</u>
<b>Industrial Development Bank</b>		
Total issued share capital at cost.....	<u>\$ 27,000,000</u>	<u>\$ 25,000,000</u>
<b>Bank premises</b>		
Land, buildings and equipment		
Cost less accumulated depreciation.....	\$ 10,583,188	\$ 11,470,473
<b>Other assets</b> .....	<u>\$ 566,732</u>	<u>\$ 471,031</u>
	<u>\$3,242,900,239</u>	<u>\$3,044,444,119</u>

\*Foreign currencies converted to Canadian dollars at year-end closing rates.

L. RASMINSKY, Governor  
Ottawa, January 30, 1962

A. J. NORTON, Chief Accountant

**F ASSETS AND LIABILITIES**

**AS AT DECEMBER 31, 1961**

(with comparative figures at December 31, 1960)

**LIABILITIES**

	<u>1961</u>	<u>1960</u>
<b>Capital paid up</b> .....	\$ 5,000,000	\$ 5,000,000
<b>Rest fund</b> .....	<u>\$ 25,000,000</u>	<u>\$ 25,000,000</u>
<b>Notes in circulation</b> .....	<u>\$2,146,820,122</u>	<u>\$2,061,743,386</u>
 <b>Deposits</b>		
Government of Canada.....	\$ 41,443,054	\$ 35,721,014
Chartered banks.....	749,430,167	662,584,610
Other.....	33,384,837	33,278,175
	<u>\$ 824,258,058</u>	<u>\$ 731,583,799</u>
 <b>Liabilities payable in pounds sterling, U.S.A. dollars and other foreign currencies*</b>		
To Government of Canada.....	\$ 45,086,763	\$ 59,573,053
To others .....	13,942,970	9,036,950
	<u>\$ 59,029,733</u>	<u>\$ 68,610,003</u>
<b>Bank of Canada cheques outstanding</b> .....	<u>\$ 177,700,599</u>	<u>\$ 149,194,297</u>
 <b>Net balance of Government of Canada collections and payments in process of settlement</b> .....		
	<u>\$ 3,359,727</u>	<u>\$ 2,026,977</u>
<b>Other liabilities</b> .....	<u>\$ 1,732,000</u>	<u>\$ 1,285,657</u>
	<u>\$3,242,900,239</u>	<u>\$3,044,444,119</u>

**Auditors' Report** • We have made an examination of the statement of assets and liabilities of the Bank of Canada as at December 31, 1961 and have received all the information and explanations we have required. We report that, in our opinion, the above statement correctly sets forth the position of the Bank at December 31, 1961 according to the best of our information and as shown by the books of the Bank.

W. R. KAY, C.A.  
of Fred Page Higgins & Company

J. H. RENÉ de COTRET, C.A.  
of René de Cotret, Ferron, Nobert & Cie

## Board of Directors



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Governor  
Member of the Executive Committee*

J. R. BEATTIE     *OTTAWA  
Deputy Governor  
Member of the Executive Committee*

A. C. ASHFORTH     *TORONTO, ONT.*

H. BARIBEAU     *LEVIS, QUE.*

N. H. DEBLOIS     *CHARLOTTETOWN, P.E.I.*

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C. BRUCE HILL, M.C.     *ST. CATHARINES, ONT.  
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\*Appointed in February 1962.

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# **BANK OF CANADA**

**ANNUAL REPORT OF  
THE GOVERNOR TO THE  
MINISTER OF FINANCE**

**AND STATEMENT OF ACCOUNTS**

**FOR THE YEAR *1962***



BANK OF CANADA *Ottawa 4*

February 28th, 1963.

The Hon. George C. Nowlan, Q.C., M.P.,  
Minister of Finance,  
Ottawa, Ontario.

Dear Sir,

In accordance with the provisions  
of the Bank of Canada Act I am transmitting  
herewith my report for the year 1962 and  
a statement of the Bank's accounts for this  
period which is signed and certified in the  
manner prescribed in the by-laws of the Bank.

Yours very truly,

*W. L. Fleming*  
Governor



**Report of the Governor - 1962**

The foreign exchange difficulties we experienced last year were the outstanding feature of the financial scene in Canada in 1962, and I am devoting the first section of my Report to an account of the response of monetary policy to this situation and to some general observations arising out of the events of the period.

On June 24, following a sharp decline in the official exchange reserves, the Prime Minister issued a statement saying that Canada was faced with an exchange emergency, that the Government was determined to defend the exchange value of the Canadian dollar at the level established in May, and that special measures designed to deal with the situation were being implemented immediately. These special measures included the temporary imposition of graduated surcharges on certain classes of imports, a temporary reduction in the exemptions from customs duty accorded to Canadian tourists on goods brought back to Canada, reductions in Government expenditure amounting to \$250 million in a full fiscal year, the earmarking of a portion of the Government's cash balances for the purpose of financing increases in the foreign exchange reserves, and the mobilization of international financial support in the form of cash and stand-by credits amounting in total to U.S. \$1,050 million. It was announced that the measures affecting imported goods would be withdrawn as soon as circumstances permitted and that longer-term measures of a positive, constructive nature would be introduced to improve Canada's current international accounts.

On the same date as the Prime Minister's announcement of these measures I issued the following statement:

"The Governor of the Bank of Canada announced today that the Bank Rate, which is the minimum rate at which the Bank of Canada makes advances to chartered banks, has been fixed at 6%. The Bank is also prepared to enter into purchase and resale agreements with money market

dealers at a rate of interest  $\frac{1}{4}$  of 1% above the average rate on three-month treasury bills at the preceding weekly tender, or at Bank Rate, whichever is lower.

The Governor said that the action of fixing Bank Rate at the level of 6% emphasizes the determination of the central bank to discharge the duty placed on it by the preamble of the Bank of Canada Act ". . . to protect the external value of the national monetary unit. . .". It is one part of the programme of financial measures announced by the Prime Minister this afternoon.

This action with respect to the Bank Rate has been taken after consultation with the Prime Minister and the Minister of Finance."

The monetary policy followed in response to the exchange emergency had as its immediate objective the restoration of confidence in the country's ability and determination to maintain the exchange rate. Further withdrawals of funds from Canada had to be discouraged and a renewed inflow of capital on a substantial scale had to be encouraged. Central bank operations were accordingly directed toward promoting and maintaining a level of interest rates in Canadian financial markets which would help in establishing a net inflow of capital large enough to cover the current account deficit in the balance of international payments and rebuild the depleted foreign exchange reserves.

A general upward movement in yields on Government securities had already begun in May and had accelerated sharply in the second half of June; by mid-July yields on Government securities through the whole maturity range were in the vicinity of  $5\frac{1}{2}$  per cent. As a result of this upward adjustment in yields the spread between interest rates in Canada and the United States widened substantially and the incentive for capital to remain in, or move to, Canada was appreciably increased.

At the levels of prices and yields thus established, and in the light of the other measures that had been undertaken to deal with the exchange problem, a strong demand for Government securities arose from non-bank investors during the summer months. It was essential, for exchange reasons, that an increased supply of securities should be made available to meet this demand so that it would not result in a premature reduction of bond yields relative to those in external markets. There was, however, little change during this period in the total amount of Government securities outstanding, and the volume of new bond issues offered by other Canadian borrowers was also unusually small. In these

circumstances the securities required to satisfy the strong demand of non-bank investors had to come from the banking system, and the monetary policy followed produced this result. Accordingly, there was a temporary but sharp contraction in total chartered bank assets and in the total money supply. This contraction came to an end in early September.

There was a decline in Government bank balances in the June-September period which exceeded the decline in the total money supply, and the general public's holdings of currency and chartered bank deposits rose during this period, though the increase was less than the normal seasonal increase at this time of the year. Government bank balances had reached an unusually high level earlier in the year as a result of the large sales of foreign exchange from the official reserves, and their subsequent decline in the course of the summer reflected their use in financing additions to the official exchange reserves and the Government's other requirements.

Although a cyclical expansion in business activity had been under way in Canada since early in 1961 there remained an appreciable amount of unemployed manpower and idle plant capacity, and the central bank wished to ease the credit situation as soon as this could be done without exposing the economy to the risk of further foreign exchange difficulties. By September it appeared that the recovery of the foreign exchange reserves and the restoration of confidence in the country's ability to defend the exchange rate had proceeded far enough to permit some relaxation of monetary policy. Accordingly, less resistance was offered to the upward pressure on Government security prices resulting from non-bank demands. This change in central bank policy was reflected in the reduction of the Bank Rate to 5½ per cent announced September 7.

A reflux of short-term capital was the main factor in the initial recovery of the exchange reserves. By the end of the summer, however, there was growing evidence of a resumption of long-term capital inflows. The Government sold a \$250 million bond issue in New York in September and there were reports of arrangements for other new issues of Canadian borrowers in the United States market. These developments were accompanied by a further easing of credit conditions in Canada during the autumn months. The Bank Rate was reduced to 5 per cent on October 12 and to 4 per cent on November 13. Yields on Government securities fell, slowly at first and then rapidly, from the mid-July level and flattened out in November. The spread between yields in Canada and

the United States narrowed but remained wide enough to attract some inflow of long-term capital.

Beginning in September chartered bank liquidity, which had been sharply reduced in July and August, increased rapidly, and total chartered bank assets and the money supply resumed their upward trend. Bank loans, which had been rising very rapidly, reached a peak in September and then declined more than seasonally as a number of special influences which had been swelling the demand for bank credit earlier in the year disappeared or were reversed. In February 1963 total chartered bank assets and total currency and bank deposits were approximately 4 per cent higher than a year earlier, and total bank loans were approximately 10 per cent higher.

Along with the increase in official exchange reserves from about \$1,100 million on June 24 to over \$2,650 million at the end of January 1963 there has been a progressive retirement of the international short-term credits obtained last June. The \$400 million stand-by credit from the Export-Import Bank in Washington was reduced by \$250 million in mid-September and terminated on January 3, 1963. The currency arrangements with the Federal Reserve System and the Bank of England, amounting originally to \$350 million, were reduced by a total of \$175 million in October, by a further \$75 million in November, and the balance of \$100 million was retired in December. The drawing of \$300 million from the International Monetary Fund remains outstanding. The \$250 million arrangement with the Federal Reserve System has been placed on a stand-by basis.

The monetary policy followed in response to the exchange difficulties rested on the judgment that in the circumstances the Bank of Canada could best promote the well-being of the economy by giving immediate priority to the restoration of Canada's external position. In retrospect, I believe that monetary policy made a useful contribution to bringing about a rapid recovery from the exchange difficulties of 1962, and that in doing so it contributed to establishing the essential conditions for continued economic progress.

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I turn now to a few general observations arising out of our recent foreign exchange experience.

**THE SIZE OF THE INTERNATIONAL CURRENT ACCOUNT DEFICIT.** Our recent foreign exchange difficulties have attracted further public attention to the size of the deficit on current account in our balance of international payments, that is, to the excess of our imports of goods and services over our exports of goods and services. There appears to be a wide consensus that in the recent circumstances of substantial unemployment and unused productive capacity at home our current account deficits have been undesirably large, and public discussion and public policy have been increasingly concerned with finding appropriate means of correcting this situation.

Though Canada's current account deficit remains large, the trend since 1959 has been towards smaller annual deficits, and the improvement continued in 1962. On the basis of recent experience it would have been normal for the cyclical expansion in economic activity in Canada to have been accompanied by an increase in our current account deficit, but instead there was a reduction from about \$980 million in 1961 to about \$850 million in 1962. The deficit in the latter part of 1962 was running at a considerably lower rate than for the year as a whole even after allowing for some distortions in the timing of payments and receipts which tended to accentuate the improvement. I believe that the lower exchange value of the Canadian dollar, taken in conjunction with the degree of price stability we have been able to maintain, has played a helpful role in the improvement which has occurred, and that if we take advantage of our opportunities we can expect to derive additional benefits from this and other actions that have been taken affecting our balance of payments. At the same time, sustained and vigorous efforts on the part of government, industry and labour to increase the efficiency, flexibility and skills of the Canadian economy will be needed if the momentum of improvement in our international accounts is to be maintained. The efforts will be doubly rewarding, for the economic attributes that are necessary to allow Canada to make its way in an increasingly competitive and freely-trading international community are essentially the same as those required to achieve satisfactory internal prosperity and growth.

#### **THE SIZE AND VARIABILITY OF OUR FOREIGN EXCHANGE RESERVES.**

Canada's experience in June 1962 high-lighted the extent to which international financial co-operation has developed. Substantial amounts of financial assistance can now be made available very rapidly to countries that experience temporary difficulties in their external payments. Credits totalling the equivalent of U.S. \$1,050 million were extended to Canada within a few days of the time when our desire for assistance was made known. This total was composed of a drawing of the equivalent of U.S. \$300 million from the International Monetary Fund (comprised of the equivalent of \$100 million in pounds sterling, \$80 million in Deutsche marks, \$80 million in French francs, \$20 million in Belgian francs and \$20 million in Netherlands guilders), a line of credit of \$400 million from the Export-Import Bank in Washington, a reciprocal currency arrangement in the amount of \$250 million between the Bank of Canada and the Federal Reserve System in the United States, and a comparable arrangement with the Bank of England in the amount of \$100 million. In connection with the central bank arrangements, I should like to record publicly my appreciation for the assistance provided by the Federal Reserve System and the Bank of England, and for the intimations I received in the latter part of June that certain central banks in Western Europe were ready, if this were desired, to place additional funds at the disposal of the Bank of Canada.

The growth of international financial co-operation has strengthened substantially the second line of defence in protecting the world structure of foreign exchange rates. The first line of defence continues to be each country's own foreign exchange reserves. Under the fixed exchange rate system which was re-established on May 2, 1962, Canada fulfills her obligations by buying or selling United States dollars in the Canadian foreign exchange market to the extent that this is necessary to keep the foreign exchange rate for the Canadian dollar within one per cent on either side of the par value. As long as the supply of and demand for foreign currencies coming on the Canadian exchange market are in balance, no official intervention in the exchange market is required. In practice, however, there are so many sources of unevenness in the flows of foreign currency receipts and payments that a close balance between them over any limited period of time is little more than an accident. Some imbalance may be accommodated by movements of the exchange rate within the agreed limits of one per cent on either side of the par value and by changes in private holdings of foreign exchange, but much of the unevenness in the flows of receipts and payments must be accommodated by fluctuations in the official reserves. These fluctuations perform the function of shock-absorbers in our foreign exchange rate

system and in addition provide time for any adaptation of public economic policies that may be necessary in the light of the external position.

For the fixed rate system to operate well its shock-absorbers must be allowed to do their job. This means that we must be prepared on occasion to see quite large movements in our foreign exchange reserves. During the decade of the fluctuating exchange rate we became accustomed to very small changes in our exchange reserves, since the pressures caused by imbalances in the supply of and demand for foreign exchange in the market could be absorbed by movements in the exchange rate. We should now recognize that we have changed our exchange rate system to one in which larger fluctuations in reserves must be regarded as normal.

During the years when Canada had a fluctuating exchange rate our reserves moved within the range of about \$1,800 million to \$2,000 million. While there is no reliable formula for determining what level of reserves a country ought to aim at, I believe that the growth in our international trade and our international indebtedness and the increase in the size of the movements in our reserves that must be expected in consequence of our return to a fixed exchange rate will make it desirable for Canada to aim at carrying higher reserves, on the average, than we did during the decade of the fluctuating rate.

**CANADA'S BALANCE OF PAYMENTS WITH THE UNITED STATES.** In view of the fact that the United States has been experiencing a balance of payments problem there is at the present time particular interest in the impact of the Canadian balance of payments on the United States balance of payments. Since Canada holds her official exchange reserves in the form of gold and United States dollars, it might be thought that our reserves could only be increased if Canada had an over-all surplus in her balance of payments with the United States. This of course is not the case. Under conditions of currency convertibility, changes in our reserves are the result of the net balance of our transactions on current and capital account with all countries, our current gold production, and our transactions with international financial agencies. In actual fact, we characteristically run a large current account deficit with the United States which is not fully covered by our net imports of capital from that country. Thus, we have an over-all deficit with the United States. This deficit would involve a drain on our exchange reserves if we did not run an over-all surplus with other countries which is settled in convertible currencies and if we did not have new gold production each year.

The regional structure of the Canadian balance of international payments is set out in some detail in a special table on pages 40 and 41. It will be seen from this table that, while the net capital inflows from the United States to Canada in recent years have been very large, they have been less than our current account deficits with that country. For the four years 1958 to 1961 inclusive our total payments deficit with the United States averaged about \$200 million a year. In 1962 we ran an over-all surplus with the United States in the second half of the year, but in the first half of the year we ran an even larger over-all deficit associated with our foreign exchange difficulties. For 1962 as a whole our total payments deficit with the United States was probably not very different from the 1958-61 average.

\* \* \*

In my Report last year I welcomed the appointment of the Royal Commission on Banking and Finance under the Chairmanship of the Honourable Dana Porter, Chief Justice of Ontario, and indicated that I expected to give evidence on the role of monetary policy and other matters having to do with the operations of the Bank of Canada.

The Royal Commission was active throughout 1962 and had public hearings in many parts of the country. I had expected to appear before the Commission last July, and at the end of May the Bank made five submissions to the Commission as follows:

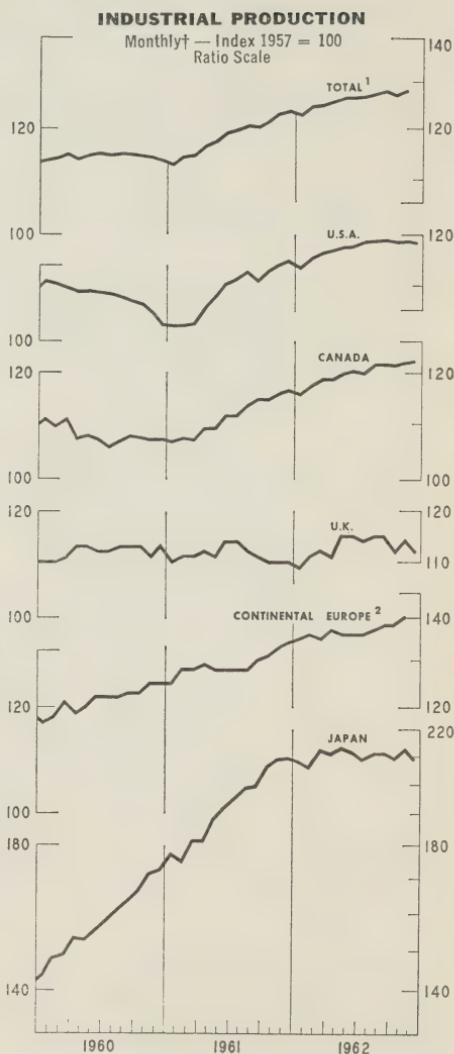
- Submission I The Constitution and Functions of the Bank of Canada
- Submission II The Role of Monetary Policy
- Submission III The Techniques of Monetary Policy
- Submission IV The Role of the Bank of Canada in Debt Management
- Submission V The Role of the Bank of Canada in Foreign Exchange

In view of the exchange situation the appearance of the public witnesses scheduled for July was postponed until January 1963. In the meantime the Bank had its submissions printed so that we could make them available to interested persons upon request. When I appeared before the Commission on January 9, 1963, I made an opening statement which summarizes the views that the Bank of Canada placed before the Commission; this statement is included as an Annex to the present Report (pages 60 to 75).

## The External Economic Environment

Expansion continued in the world economy during 1962 but at a more moderate pace than in 1961. Aggregate industrial production in the main industrial countries rose at an annual rate of about 4 per cent. Industrial output in the United States expanded in the first half of the year but remained quite steady thereafter. In the United Kingdom output regained in the first half of the year the ground lost in the second half of 1961 and then levelled off. In Continental Europe industrial production did not rise in the first half of 1962 but some further increases were apparent in the second half of the year. The industrial output of Japan, which had risen with extraordinary rapidity for some years, levelled out as measures were taken to arrest a deterioration in the Japanese balance of international payments and a marked rise in the domestic price level.

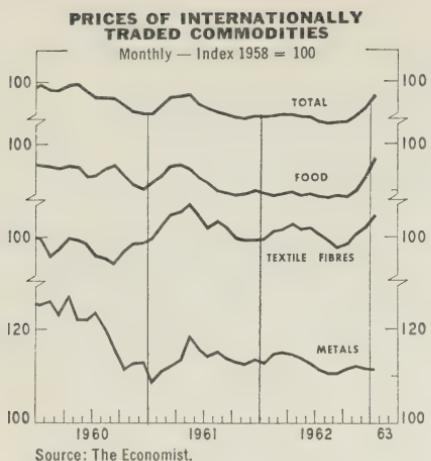
World trade continued to expand during 1962, though quite moderately, and the rising consumption of raw materials in the industrial countries was reflected in some improvement in the over-all trade position of the primary producing



† Seasonally adjusted.

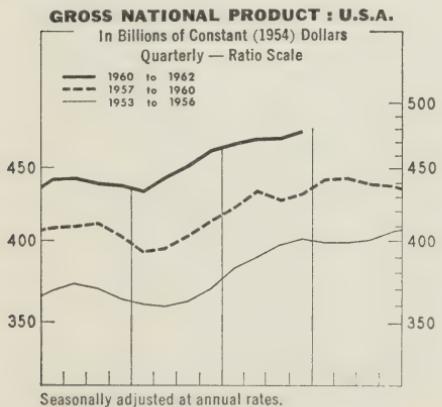
1. 1953 weights; U.S.A. 56, Canada 4, U.K. 12, Continental Europe 25, Japan 3.

2. Other O.E.C.D. countries.



growth of imports than of exports. Their domestic levels of costs and prices have risen substantially in the past two years; meanwhile the United States and Canada have experienced a greater degree of price stability which has improved their competitive position.

**ECONOMIC DEVELOPMENTS IN THE UNITED STATES.** The United States economy continued to expand in 1962 though the growth in real output of goods and services, amounting to about 3 per cent between the fourth quarter of 1961 and the fourth quarter of 1962, was appreciably less than in the earlier stages of the cyclical expansion. Following a 15 per cent increase during the first year and a half of expansion, industrial production has remained on a high plateau since last July.



at a very high level. Government outlays for goods and services advanced steadily, adding \$10 billion to total demand in 1962. Business investment in plant and equipment continued to rise through the first three quarters of the year but was flat in the final quarter. Residential construction, which for the year

countries. The prices of many internationally traded commodities were unusually stable during most of 1962 and some of them strengthened late in the year, notably wool, rubber, tea and sugar. Among industrial countries changes in the balance of trade were generally in the direction of international equilibrium; in particular, the main industrial countries in Western Europe, which had emerged as the major surplus countries in the world economy, experienced a more rapid

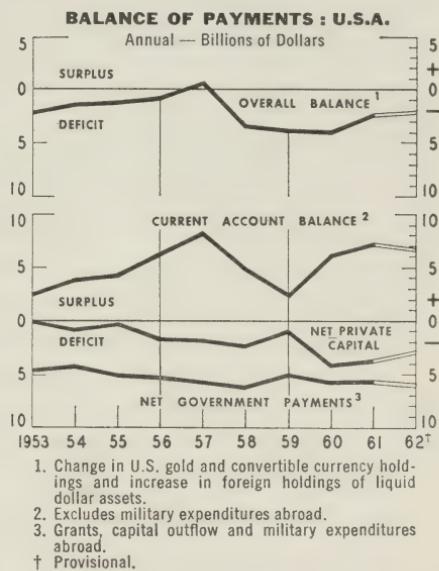
as a whole was considerably higher than in 1961, declined in the fourth quarter. The change in business inventories was an important restraining factor, moving from a \$6.7 billion annual rate of accumulation in the first quarter to about \$1 billion in the fourth quarter.

The expansion in merchandise imports was matched by increased exports in the first half of 1962, but in the second half exports declined while imports rose somewhat further. For the year as a whole, the current account surplus was \$6.7 billion compared to \$7.2 billion in 1961. There were again special advance debt repayments from foreign governments, and a lower rate of private capital outflow contributed to a small reduction in the adverse balance of international payments. The overall deficit of the United States (defined as the decline in gold and convertible currencies and the increase in foreign holdings of liquid dollar assets) is estimated at \$2.2 billion, compared with \$2.4 billion in 1961 and a peak of \$3.9 billion in 1960. The gold outflow amounted to \$0.9 billion, about the same as in 1961.

Total employment increased by about 2 per cent in 1962, while the labour force increased by 1.5 per cent; in both cases the whole of the increase took place during the first eight months of the year. The seasonally adjusted unemployment rate fell to a low of 5.3 per cent in July and thereafter fluctuated around a slightly higher level. In January 1963 it was 5.8 per cent.

There was again a considerable measure of price stability in 1962. Industrial materials prices tended to decline after some increases in 1961, the prices of finished goods were relatively steady, and food and service prices rose moderately. The consumer price index at the end of the year was 1.2 per cent higher than at the end of 1961.

From the fourth quarter of 1961 to the fourth quarter of 1962 total Federal Government expenditures (national accounts basis) rose  $6\frac{1}{2}$  per cent, while revenues increased 5 per cent. The deficit on a seasonally adjusted basis narrowed during the first half but widened out again in the second half; for 1962 as a whole the deficit on a national accounts basis was about  $1\frac{1}{2}$  billion.



The economic expansion was not accompanied by any marked changes in credit conditions. Long-term interest rates declined during the spring, rose briefly in June and July and then drifted lower through the balance of the year. The yield on 91-day treasury bills moved between 2.65 per cent and the 3 per cent Federal Reserve discount rate, approaching the latter in July and again at year-end. Total deposits and currency increased by about 7½ per cent during 1962, slightly more than the increase in 1961. Commercial bank loans rose by 11 per cent during the course of the year, twice as much as in 1961.

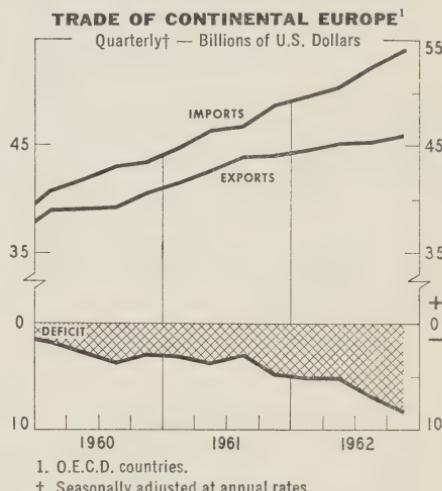
**ECONOMIC DEVELOPMENTS IN THE UNITED KINGDOM AND CONTINENTAL EUROPE.** In the United Kingdom the ground lost in the second half of 1961 was recovered in the first half of 1962 but the upward movement was not sustained and on balance there has been little growth in output over the past two years. Consumer spending rose in 1962, and purchases of cars were stimulated by the relaxation of the credit restraints imposed in 1961; housing was well sustained; and investment expenditures in the public sector rose strongly. On the other hand private business investment continued to fall from the high level reached in the middle of 1961. The trough of the inventory cycle appears to have been reached in the first quarter of 1962 when some liquidation occurred but subsequent accumulation has been modest. Unemployment has risen for a year and a half and the severity of the winter weather has contributed to raising it to levels which are high in comparison with recent years. Wage rates have continued to increase, reflecting some delayed settlements after the "wages pause" urged by the Government in 1961, but these increases have been less rapid than in some Continental European countries.

The balance of payments position of the United Kingdom has improved substantially since 1960 and in the first half of 1962 the current account showed a surplus although some worsening was evident after mid-year as exports levelled out and imports rose again. The over-all external balance in 1962 as a whole was generally favourable; though there was a decline in reserves, this was more than accounted for by repayments to the International Monetary Fund of the large drawing made in 1961. Bank Rate was reduced from 6 per cent to 4½ per cent in three steps during March and April and the remainder of the year was marked by easier monetary conditions and substantial increases in bond prices. Late in the year, as it was becoming apparent that economic expansion was not continuing, stimulus was provided by reductions in the purchase tax on consumer durables and by increases in investment allowances, and Bank Rate was reduced to 4 per

cent in January 1963. Continuing concern over the longer run problems confronting the United Kingdom has been reflected in the establishment of the National Economic Development Council and the National Incomes Commission, and in the continuing stress laid upon the urgency of renewed and sustained expansion of United Kingdom exports.

In Continental Europe both production and employment remained close to the ceiling of available resources. Unemployment remained low and the gradual shift to a five-day work week contributed to the continuance of labour shortage in industry. Little change occurred in industrial production during much of the year in Germany and in Italy. In France the continuation of steady expansion in output was facilitated by an unusually rapid growth in the labour force arising in part from the inflow of immigrants from Algeria.

The strongest elements of demand in Continental Europe were consumer expenditures, especially on cars, and government outlays. Business fixed investment rose more slowly than previously and in some countries actually declined. In virtually every European country, wages and prices continued to rise rapidly in 1962 and became increasingly a source of concern, partly because this development was reducing the strength of Europe's international competitive position. The trade balances of almost all European countries have deteriorated, and reserves were accumulated at a much slower rate than in the previous year.



**DEVELOPMENTS IN INTERNATIONAL PAYMENTS.** The developments in world trade and payments in 1962 were generally in the direction of international balance. The large current account surplus of Continental Europe was much reduced; the sharp widening of the trade deficit which created difficulties for Japan in 1961 was reversed; some progress was apparent in reducing Canada's large current account deficit. The exports of primary producing countries increased in 1962, reflecting rising levels of commodity consumption in the industrial countries, and their imports showed little strength, as declines from Europe offset increases from North America. Short-term capital flows were

again large but there were no major speculative movements against either of the reserve currencies such as occurred in 1960 and 1961. In the first quarter of 1962 funds moved in substantial amounts from European centres to London, attracted by the higher yields available there, but these flows did not persist after the interest differential was reduced. There was a large outflow of funds from Canada in the second quarter of the year, largely to the United States, and a return flow in the third quarter. The total outflow of capital from the United States to Europe increased in the second quarter due in part to the movement of funds associated with the sharp declines in the New York stock market, but declined again in the third quarter. For the year as a whole the total outflow of capital from the United States to all countries was smaller than in 1961.

**CHANGES IN INTERNATIONAL RESERVE POSITIONS\***

(billions of U.S. dollars)

	<u>1960</u>	<u>1961</u>	<u>1962**</u>
United States.....	-3.9	-2.4	-2.2
Canada.....	-	+0.2	+0.2
United Kingdom.....	+0.8	-0.9	+0.5
Continental Europe.....	+4.2	+3.2	+1.0
Japan.....	+0.5	-0.3	+0.4
Other Countries†.....	-0.4	-0.6	-0.1

\* For the United States, the over-all deficit in the balance of payments. For all other countries, changes in official reserves adjusted for I.M.F. transactions.

\*\*Preliminary.

† Excluding Sino-Soviet Bloc.

A broad impression of the changes in the distribution of international liquidity in the past three years is provided by the table above. While the estimates for each country are not fully comparable they give an indication of the extent to which the reserve gain of Europe and the reserve loss of the United States have diminished over this period and of the accumulation of reserves by the United Kingdom and Japan in 1962, following the losses in 1961. Among the primary producing countries, Australia, New Zealand and South Africa increased their reserves again in 1962 despite rising imports associated with domestic economic expansion. On balance a small decline in the reserves of the less developed countries occurred during the year. In many cases their reserves had been substantially depleted in 1961 and are near the minimum required for working balances.

The external debt of many less developed countries has increased to the point where additional financing for their development cannot prudently be

obtained on conventional terms. An indication of this problem is to be found in the recent experience of the International Bank for Reconstruction and Development, a major source of such conventional financing; the Bank made 22 new loans totalling \$646 million in 1962, compared with 34 loans totalling \$718 million in the previous calendar year. Increased attention has been given to development assistance at low interest rates and with long repayment periods in order to reduce the burden on less developed countries of servicing external debt. In this connection the activities of the International Development Association, an affiliate of the International Bank established by intergovernmental agreement in 1960, have been particularly important. The rate at which it made commitments in 1962 foreshadowed the exhaustion of the initial subscriptions and resulted in a proposal to provide the Association with additional resources to enable it to continue its work.

If one looks at the developments in international payments in perspective one cannot fail to be impressed by the contribution which has been made by international economic co-operation, not only towards meeting the problems of the less developed countries but also in assisting the smooth functioning of the world monetary system. Over the past decade, world trade has grown about twice as rapidly as the total amount of gold, dollars and other currencies held in official national reserves. The more effective use made of national reserves in financing international payments reflects in part an improvement in the geographical distribution of reserves. It also reflects the growing usefulness of the International Monetary Fund in providing a second line of reserves and the willingness of countries to work together in developing new techniques to deal with their current exchange problems.

When the International Monetary Fund was established after the war, the aggregate of the quotas of its members was \$8 billion. In 1958, when it appeared that these quotas might be insufficient, they were increased by international agreement to \$14 billion, with a corresponding increase in the Fund's capacity to provide a second line of reserves. Since then the Fund's resources have been increasingly used and the policies and practices of the Fund have evolved in the direction of liberalizing the access to its resources. In 1962 a new arrangement came into effect under which the major industrial members of the International Monetary Fund will lend the Fund additional amounts of their currencies, aggregating approximately \$6 billion, in the event it is mutually agreed that such additional resources are required to forestall an impairment in the international payments system. The funds made available in this way will provide additional means for offsetting large and disturbing international short-term capital flows.

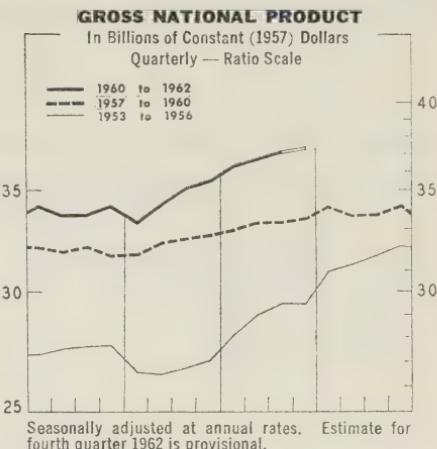
International co-operation in financial matters has evolved along other lines as well. In the course of 1962 the Federal Reserve System arranged the sale of special issues of foreign-pay securities to foreign monetary authorities to provide the United States Treasury with foreign exchange balances which could be used in appropriate circumstances as a basis for stabilizing operations in forward exchange markets. The Federal Reserve System also entered into reciprocal currency arrangements with a number of foreign central banks. At the beginning of 1963 such reciprocal arrangements, some on a stand-by basis, were outstanding with ten central banks including the Bank of Canada. They provided for mutual short-term balance of payments assistance in case of need in an aggregate amount of approximately \$1 billion.

The development of international co-operation referred to in the preceding paragraphs and the increasingly fruitful exchange of information and ideas that has taken place within the International Monetary Fund, the Organization for Economic Co-operation and Development and other international agencies have played an important and constructive part in the functioning of the international financial system. No doubt further co-operative action will be taken from time to time to improve the working of the exchange system and to adapt it to changing circumstances. Such co-operation presupposes continuing efforts on the part of all countries, surplus and deficit alike, to achieve and maintain a basic balance in their international accounts.

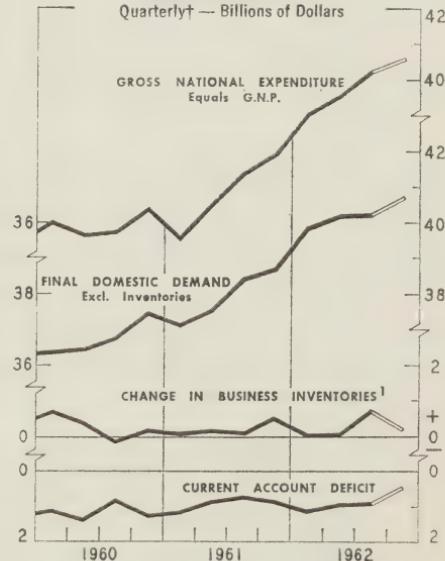
## Economic Developments in Canada

The expansion in the Canadian economy which began in the first quarter of 1961 brought about a further rise in production, income and employment in 1962. For the year as a whole the Gross National Product was just over 8 per cent higher by value and 6½ per cent by volume than in 1961. Between the fourth quarter of 1961 and the fourth quarter of 1962, the rise in volume terms was about 5 per cent, and the annual rate of increase for the second half of the year amounted to 3 per cent. Employment rose somewhat more rapidly than the labour force in 1962 and unemployment (seasonally adjusted) fell to 5.9 per cent of the labour force in the fourth quarter of 1962 from 6.3 per cent a year earlier.

Consumer expenditure was a major source of demand strength through the year except for a temporary dip in expenditure on durable goods in the third quarter. Spending by provincial and municipal governments rose sharply in the first half of the year but showed little change in the second half; residential construction rose until the third quarter, then declined; and business investment expanded moderately throughout the year. The steps taken in June to reduce federal government spending led to an appreciable decline in its expenditures on goods and services in the second half of the year. The total demand for Canadian goods and services was stimulated by a contraction of



**COMPONENTS OF GROSS NATIONAL EXPENDITURE**  
Quarterly† — Billions of Dollars



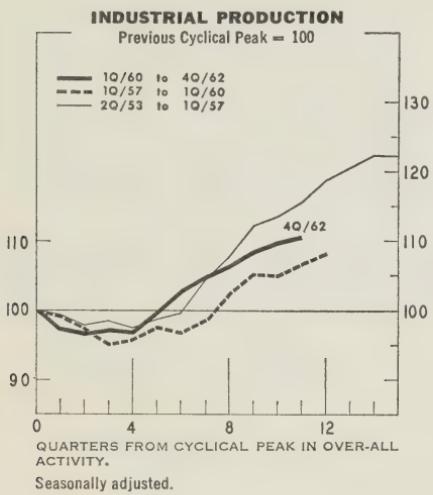
1. Farm inventory change not shown.

the current account deficit in the second quarter and again in the fourth quarter. Investment in business inventories was small except in the third quarter when a substantial accumulation took place, some of this probably reflecting the delivery of imported goods ordered during the period of exchange uncertainty.

**PRODUCTION.** Non-farm real output increased by 5½ per cent between 1961 and 1962 and, as a result of a much better harvest in Western Canada, the volume

of farm production rose by about 30 per cent. While the growth in industrial output slackened in the course of the year, the index of industrial production in the fourth quarter was 5½ per cent above its level a year before.

Both mining and manufacturing output were at appreciably higher levels in 1962 than in 1961. An increase in exports to the United States was largely responsible for substantially higher rates of output of oil, natural gas and iron ore in 1962. Mining production eased off slightly in the final months of the year. Among the primary manufactured materials sensitive to export de-



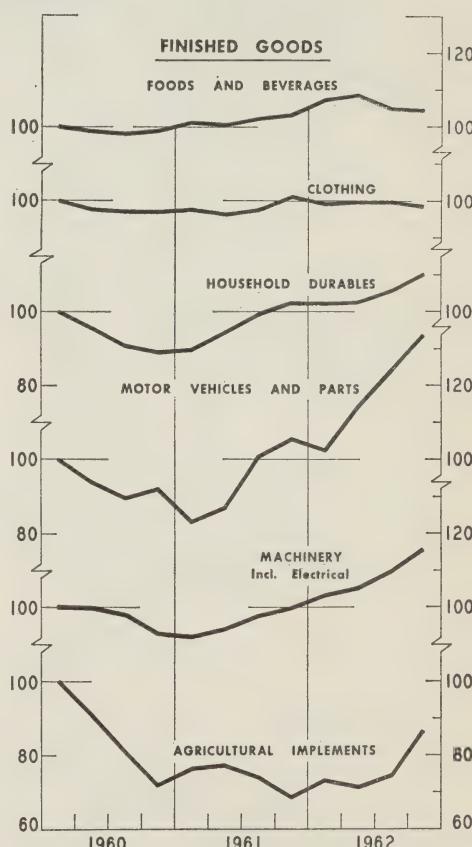
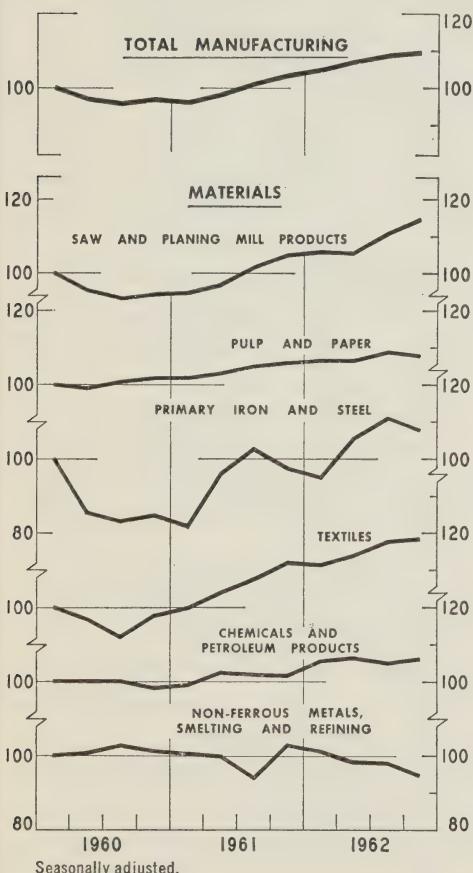
mand, lumber production increased steadily all year, but production of newsprint and refined non-ferrous metals showed little change from the 1961 level. Rising domestic demand in 1962 was reflected in further growth in the output of iron and steel, chemical and petroleum products and textiles. The displacement of some steel imports by domestic production and an expanding export market for certain products also contributed to the maintenance of a high level of operations in the steel industry in 1962.

Secondary manufacturing industries were affected by stronger domestic and export demand, by improved competitiveness at home and abroad resulting in part from the decline in the exchange rate of the Canadian dollar, and by the imposition in June of the temporary import surcharges. The automobile industry had a record year of production; sales were buoyant and domestic models obtained

a considerably larger share of the market. Output of household durables, machinery and most categories of electrical goods also rose fairly steadily during 1962. Production in certain clothing and food processing industries declined slightly in the second half of the year.

### MANUFACTURING PRODUCTION: SELECTED INDUSTRIES

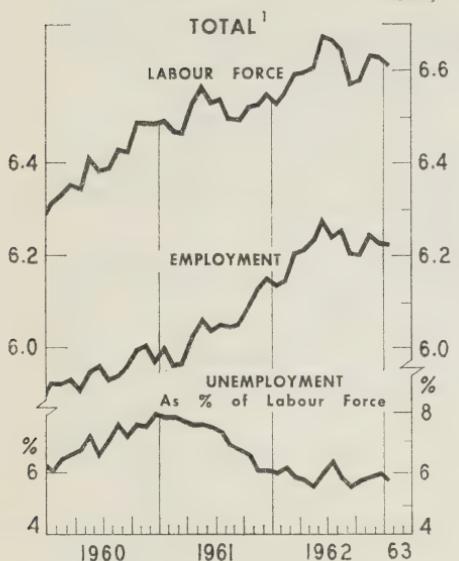
Quarterly — Index 1Q. 1960 = 100



**EMPLOYMENT AND UNEMPLOYMENT.** The civilian labour force rose more rapidly in 1962 than in 1961 but the rate of increase was again relatively low, amounting to 86 thousand or 1.3 per cent between the fourth quarter of 1961 and the fourth quarter of 1962. Over the same period employment rose by 100 thousand or 1.6 per cent, and unemployment declined by 14 thousand.

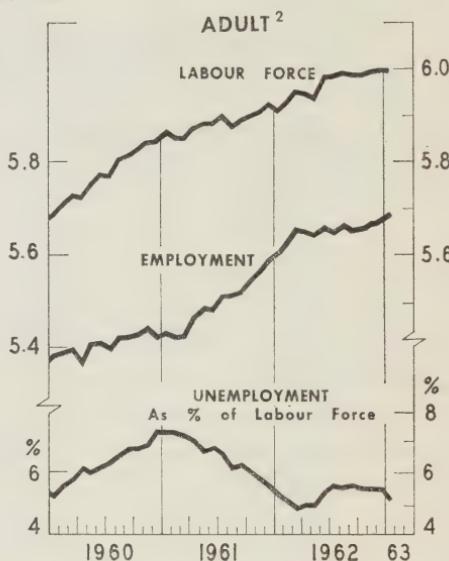
#### LABOUR FORCE, EMPLOYMENT AND UNEMPLOYMENT

Monthly — Millions of Persons



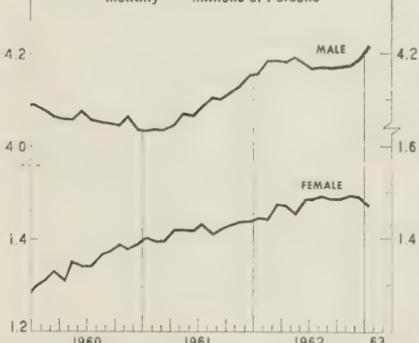
1. Seasonally adjusted by D.B.S.

2. Persons 20 years of age and over. Seasonally adjusted by the Bank of Canada.



#### ADULT EMPLOYMENT<sup>†</sup>

Monthly<sup>†</sup> — Millions of Persons



1. Persons 20 years of age and over.

† Seasonally adjusted by the Bank of Canada.

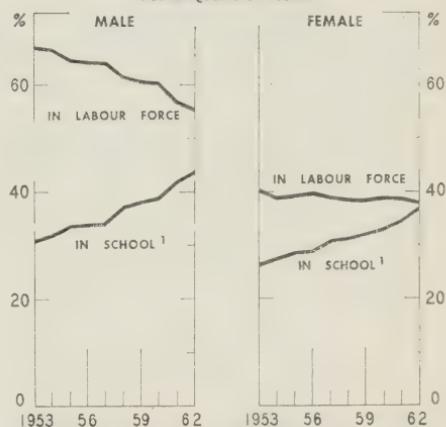
The sharp upward movement in employment (seasonally adjusted) which began in 1961 continued through the first half of 1962; a slight decline occurred after mid-year. This pattern was affected by an unusually large flow of students into temporary summer employment. Adult employment levelled out after the end of the first quarter, then rose again towards the end of the year, reflecting renewed growth in male employment.

The adult labour force (seasonally adjusted) rose in the first half of the year and then levelled out. The growth from the fourth quarter of 1961 to the fourth quarter of 1962 of 1.4 per cent was slightly more than the increase during 1961 but only about half the average rate in the five-year period prior to 1961. Some of this slowing down in the growth of the adult labour force is attributable to the drop in net immigration in recent years and to a decline in the proportion of men in the 20-24 year age group participating in the labour force. The mid-year peak in the total labour force was a result of the large number of students seeking temporary employment during the summer months.

Developments in the 14-24 age group of the population are having an important influence on the labour force situation. As a result of the jump in the birth rate in the immediate post-war years, more young people are now reaching working age each year. This would presumably have noticeably augmented the growth of the labour force already but for the trend towards an extended period of formal education. This trend has been encouraged in recent years by the raising of the legal minimum school-leaving age in several provinces and the rapid expansion of university and vocational training facilities. Thus, school attendance for both sexes has risen at an accelerated rate in the last year or two and has led to a decline in their labour force participation rates, particularly in the case of young men and youths.

#### PARTICIPATION RATES

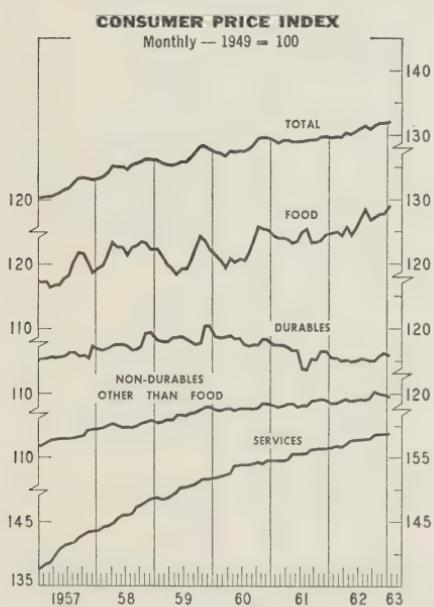
Age Group 14-24 Years  
Fourth Quarters 1953-62



1. It is assumed that all persons at school are under 25 years of age.

Unemployment averaged 5.9 per cent of the labour force in 1962 compared with 7.2 per cent in 1961. The pattern of unemployment within the year was affected by the size of the temporary summer addition of students to the labour force already mentioned. The adult unemployment rate (seasonally adjusted) continued to decline from its early 1961 high of  $7\frac{1}{4}$  per cent until the end of the first quarter of 1962 when it reached a low of 5 per cent; it rose slightly during the second quarter, remained close to  $5\frac{1}{2}$  per cent in the second half of the year and then dropped to 5.2 per cent in January 1963.

**PRICES AND COSTS.** There was a somewhat greater increase in prices in 1962 than in 1961 but in general the increase does not seem to have been much more than that which occurred in the United States, and it was appreciably less than the increase in most overseas industrial countries. Any general upward pressure on Canadian prices exerted by the decline in the exchange value of the Canadian dollar in 1961 and 1962 was substantially mitigated by easy supply conditions at home. Some tendency has been apparent for the impact of the lower exchange rate on the prices of imports to be at least partly absorbed before the goods reach final buyers. Moreover, intense competition in the markets for many of our exports has moderated the rise in their Canadian dollar prices; for example, the average Canadian dollar selling prices of the lumber and aluminum industries at the end of 1962 were only a little higher than in 1960, and the average price of pulp over the year was about the same as in 1960.



non-durable goods other than food increased by just under one per cent, rents rose by less than one half of one per cent, and prices of other consumer services increased by about two per cent.

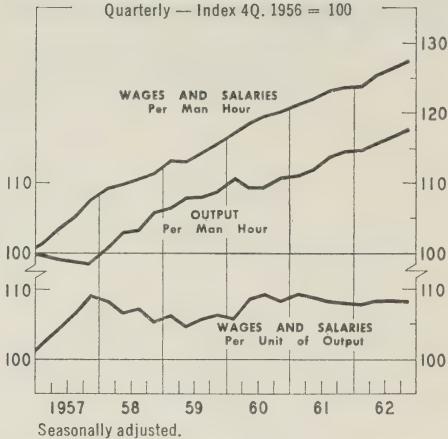
Labour income in the non-farm sector of the economy increased slightly more rapidly than output during 1962, and there was consequently a small

The consumer price index rose by 1.8 per cent between January 1962 and January 1963, compared with an increase of 0.4 per cent over the preceding 12-month period. Much of the 1962 increase was due to food prices which rose by 3.4 per cent compared with 0.3 per cent in 1961. Exchange rate developments were a factor in some of the food price increases but changing supply conditions in meat and eggs also played an important part, as did severe December frosts in major fruit and vegetable growing areas in the southern United States. Prices of consumer durable goods were practically unchanged over the 12 months ending in January 1963, prices of

increase in labour costs per unit of output. In manufacturing, output per man-hour increased by about 3 per cent between the fourth quarter of 1961 and the fourth quarter of 1962. Wages and salaries per man-hour also rose by about 3 per cent, so that unit labour costs were virtually unchanged in 1962.

#### OUTPUT, WAGES AND SALARIES IN MANUFACTURING

Quarterly — Index 4Q. 1956 = 100

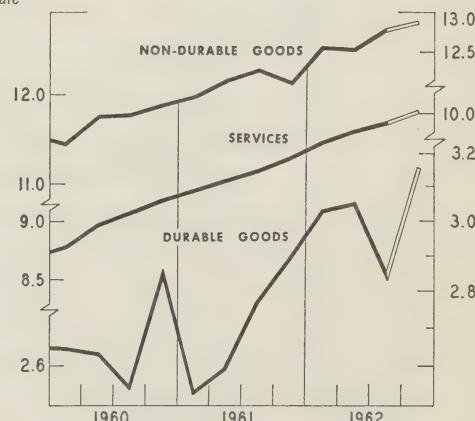
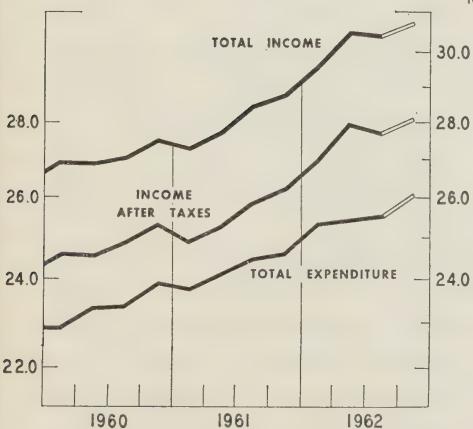


Seasonally adjusted.

**PERSONAL SECTOR.** Total personal income both before and after taxes increased by 7 per cent between the fourth quarter of 1961 and the fourth quarter of 1962, and personal expenditure grew by 6 per cent. Spending on non-durable goods and services continued to rise at much the same rate as in 1961. Expenditure on automobiles was at a record level in 1962 except in the third quarter when supplies of domestic models during the annual changeover period were unusually low. Spending on other durable goods showed little increase during the year. Personal saving amounted to 7½ per cent of disposable income in 1962, somewhat above the average of recent years.

#### PERSONAL INCOME AND EXPENDITURE

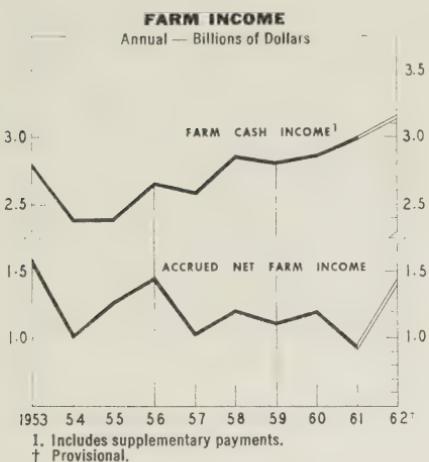
Quarterly — Billions of Dollars  
Ratio Scale



Seasonally adjusted at annual rates. Estimates for fourth quarter 1962 are provisional.

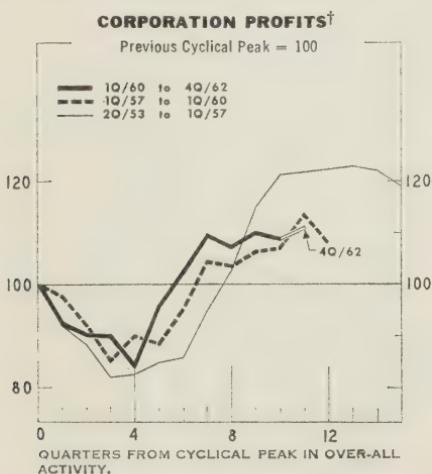
Accrued net farm income, which had been seriously affected by the drought in Western Canada in 1961, rose from the low level of \$1 billion that year to

nearly \$1.5 billion in 1962. Farm cash income on the other hand, which in 1961 had increased despite the poor harvest because of a substantial drawing down of grain inventories, rose in 1962 at about the same rate as in 1961. This rise was mainly due to higher prices, which in the case of grains and livestock fully reflected the exchange rate movement. Payments from the federal government and the Canadian Wheat Board were also higher in 1962.



1. Includes supplementary payments.  
† Provisional.

**BUSINESS SECTOR.** Corporate profits in 1962 were about 12 per cent higher than in 1961. They remained relatively stable during the year at the levels reached after the cyclical recovery which took place in the early stages of the business expansion.

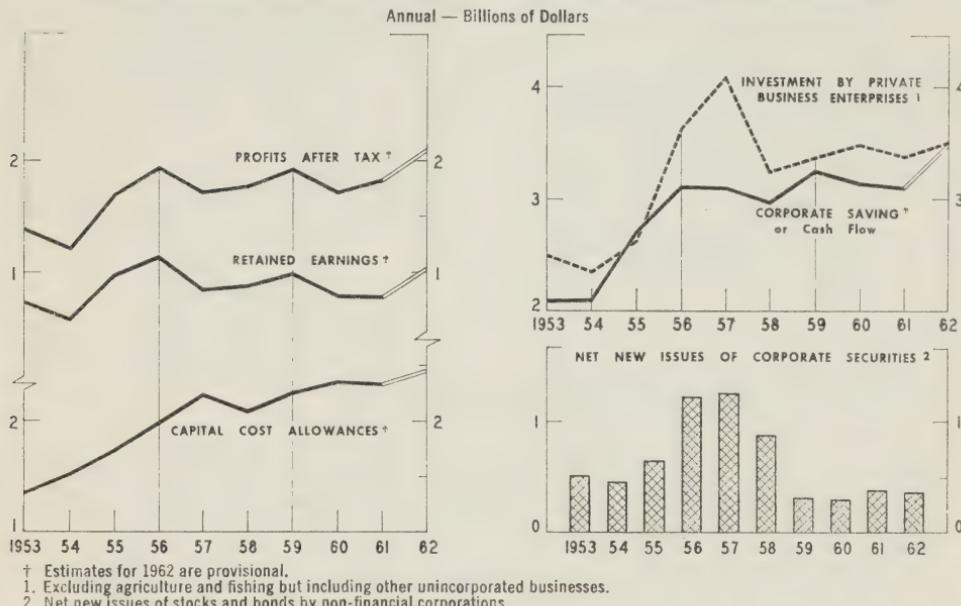


<sup>†</sup>Profits before taxes, seasonally adjusted. Estimate for fourth quarter 1962 is provisional.

Total profits after corporate tax accrals were about 15 per cent higher in 1962 than in 1961. Dividend payments rose only slightly and corporate retained earnings rose by about one third. The combined total of retained earnings and corporate capital cost allowances, constituting corporate saving and sometimes referred to as "cash flow", rose by 14 per cent to about \$3.5 billion. At this level it was roughly equal to total fixed investment by private non-farm business enterprises. As the chart on the following page indicates, corporate saving has

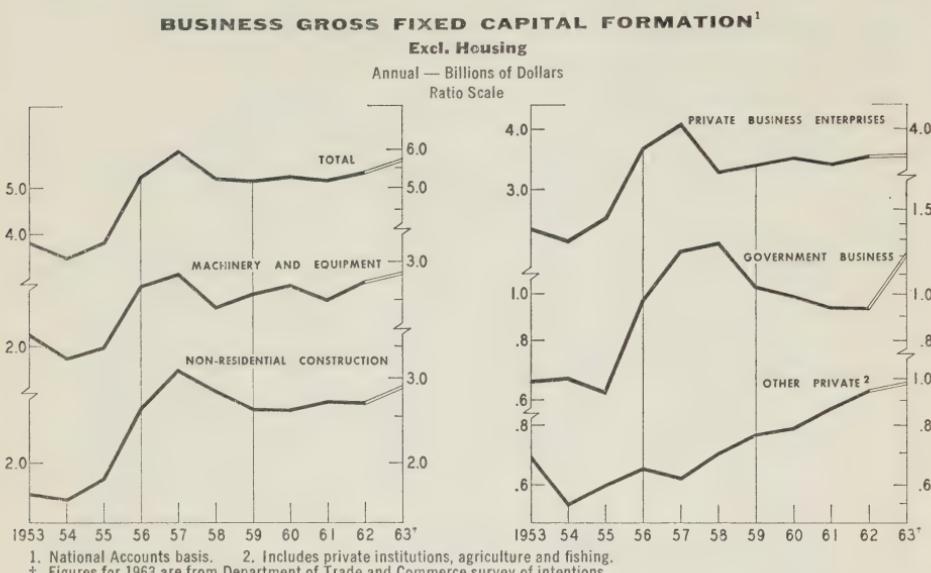
for the last several years run fairly close to private business investment, in contrast to the situation in 1956-57, when the investment figure exceeded the savings figure by a substantial margin. These developments have been reflected in the recent low level of net new issues of corporate securities.

#### CORPORATE SAVING AND PRIVATE BUSINESS INVESTMENT



Total business investment outlays on non-residential construction and machinery and equipment, as defined in the National Accounts, were about 4 per cent higher in 1962 than in 1961. The rise was entirely attributable to the private sector; outlays by government-owned business were unchanged from the previous year. The largest increase in 1962 occurred in manufacturing investment outlays which reached their highest level since 1957. The increase resulted in part from substantially larger outlays by the primary iron and steel and the petroleum products industries. There were also sizeable increases in investment expenditures by telephone utilities and in agriculture; on the other hand, outlays on natural gas pipe-line construction were down appreciably from their high 1961 level. The annual survey of investment intentions conducted by the Department

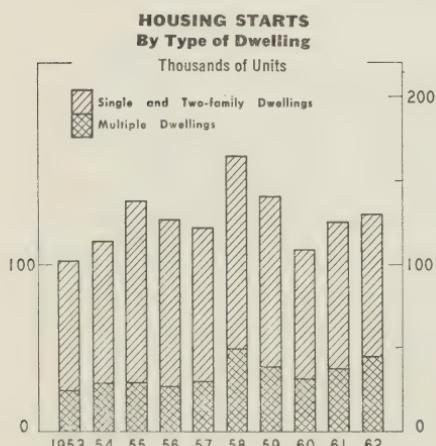
of Trade and Commerce indicates a 6 per cent increase in business fixed investment in 1963.



**HOUSING.** Expenditure on new residential construction in 1962 was about 8 per cent higher than in 1961; the Department of Trade and Commerce survey suggests that housing expenditure in 1963 will be close to the 1962 level.

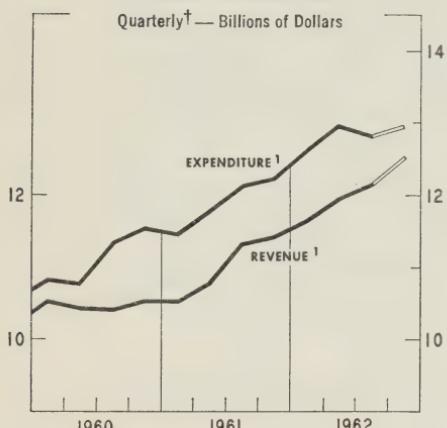
The number of housing units started rose to 130 thousand in 1962 from

126 thousand in 1961 while the number of units completed rose to 127 thousand from 116 thousand. Starts of apartment buildings and row housing in 1962 were higher than in any previous year except 1958 and accounted for 34 per cent of the total number of units started compared with 30 per cent in 1961. Associated with this trend was a substantial increase in starts financed by conventional mortgages and a decline in the number of units financed under the National Housing Act, particularly by Central Mortgage and Housing Corporation.



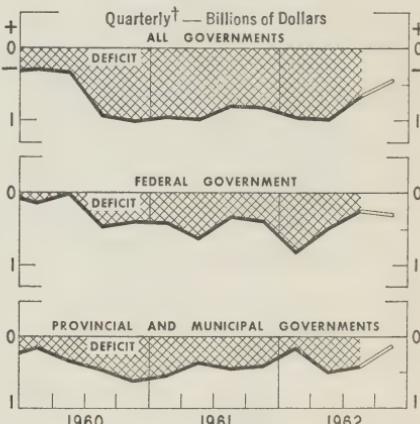
**GOVERNMENT SECTOR.\*** Total expenditures by federal, provincial and municipal governments including subsidies and transfer payments to individuals continued to rise in the first half of 1962 but declined thereafter. Total revenue increased throughout 1962 at about the same rate as in 1961. For the year as a whole the combined deficit of the three levels of government fell to less than \$800 million from \$893 million in 1961.

**REVENUE AND EXPENDITURE  
OF ALL GOVERNMENTS**  
National Accounts Basis



**GOVERNMENT SURPLUS OR DEFICIT**

**National Accounts Basis**



† Seasonally adjusted at annual rates. Estimates for fourth quarter 1962 are provisional.

1. Excludes transfers from federal to other levels of government.

At the federal level the deficit on a national accounts basis was much the same in 1962 as in 1961. The deficit (seasonally adjusted) in the first quarter of 1962 was irregularly high on account of the transition to the new federal-provincial tax collection agreements: personal and corporate income taxes accruing to the federal government declined in the first quarter, with corresponding

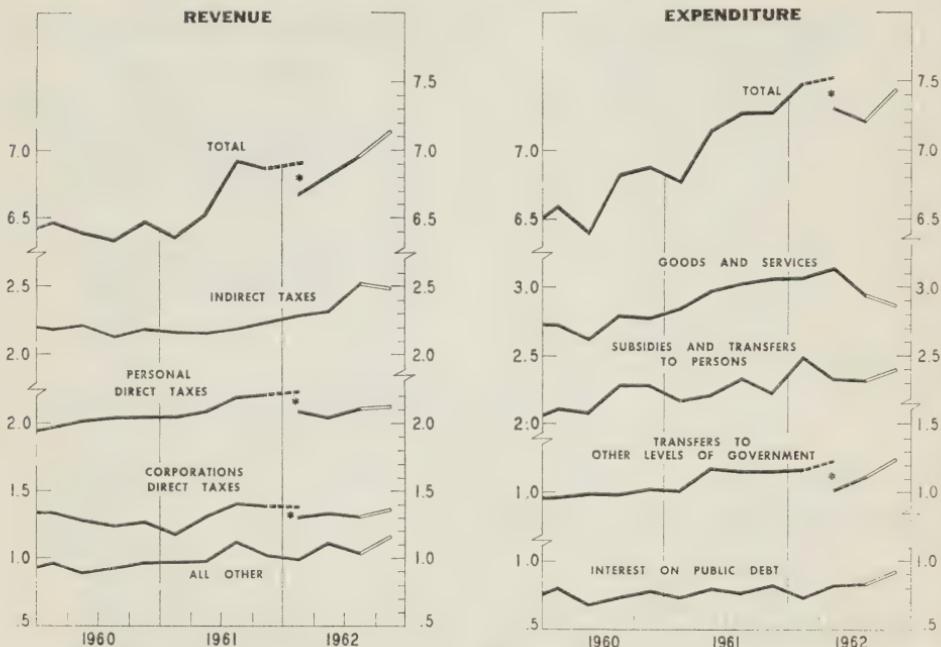
\* This section examines government revenues and expenditures on the national accounts basis which differs in several ways from the conventional accounting statements of the various levels of government. By contrast with the conventional presentations which are designed primarily to serve the objective of legislative control, the national accounts statements attempt to record transactions between the government and all other sectors in a manner that allows the direct impact of government operations on the economy to be seen more readily. On the revenue side, receipts of government pension funds and investment income from extra-budgetary accounts are included and corporation taxes are carried on an accrual basis. On the expenditure side, certain transactions are excluded such as provisions for reserves, write-offs, amortizations and the purchase of land or existing capital assets; on the other hand payments out of extra-budgetary funds such as unemployment insurance, old age security, workmen's compensation and government pension funds are included.

increases going to the provincial governments, while payments to the provinces under the former tax-sharing arrangements continued through the first quarter. Otherwise, there was little change in the deficit during the first half of the year.

#### FEDERAL GOVERNMENT REVENUE AND EXPENDITURE

National Accounts Basis

Quarterly<sup>†</sup> — Billions of Dollars



<sup>†</sup>Seasonally adjusted at annual rates. Estimates for fourth quarter 1962 are provisional.

\*Direct tax revenues reflect the new tax collection arrangements with the provinces commencing with the first quarter of 1962; transfer payments at the higher level of the former tax arrangements continued through the second quarter. The solid lines indicate actual revenues and expenditures, while the broken lines indicate what revenues and expenditures would have been in the absence of the change in tax arrangements.

In the second half of 1962 the federal deficit (national accounts basis, seasonally adjusted) was running at an annual rate of less than \$300 million compared with the second quarter rate of \$488 million. The emergency measures announced in June had a substantial impact on both revenue and expenditure. Indirect taxes rose by nearly \$200 million at annual rates, much of this gain coming from the import surcharges. Purchases of goods and services declined by about \$200 million at annual rates in the third quarter and fell again in the fourth quarter; defence expenditures were reduced by about \$100 million

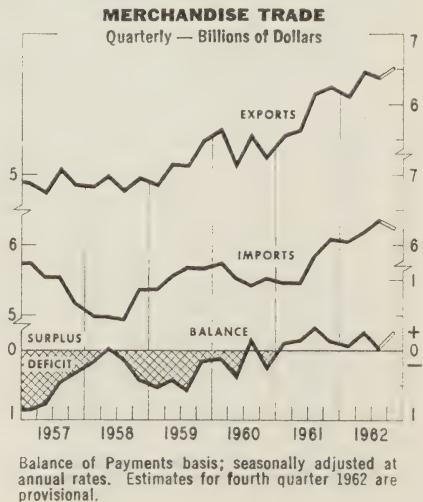
at annual rates and the remainder of the reduction was in public works expenditures and in wage and salary payments. On balance other categories of expenditure increased in the second half of the year; there was a further substantial increase in vocational training payments to provincial governments, subsidy payments to the railways in the fourth quarter were unusually large and a final transfer to the provinces under the former tax-sharing arrangements took place at the end of the year.

The net cash requirements of the federal government in 1962 and the means of financing them are discussed on pages 55 to 57.

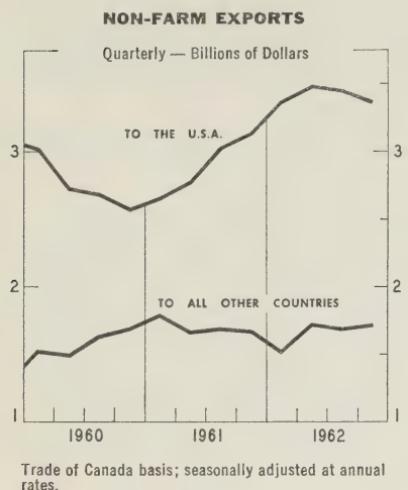
At the provincial and municipal levels, total expenditures continued to advance in the first half of 1962 with increased capital outlays on education, including vocational training schools, playing an important part. During the second half of the year expenditures rose further though more slowly as purchases of goods and services declined. Total revenues maintained a steady advance through 1962 when allowance is made for the unusual factors arising out of federal-provincial tax arrangements which increased the level of revenues in the first quarter.

### International Trade and Payments.

**MERCHANDISE TRADE.** The sharp upswing in commodity exports which began early in 1961 continued in 1962, but at a slower rate. For the year as a whole commodity exports were 8 per cent greater by value and 4-5 per cent greater by volume than in 1961. Merchandise imports, which had risen strongly in the second half of 1961, fell off in the first quarter of 1962, rose in the second and third quarters and declined in the fourth quarter. For the year as a whole, the value of commodity imports was 8½ per cent greater in 1962 than in 1961, of which 3-4 per cent represented increased volume and the balance an increase in prices. There

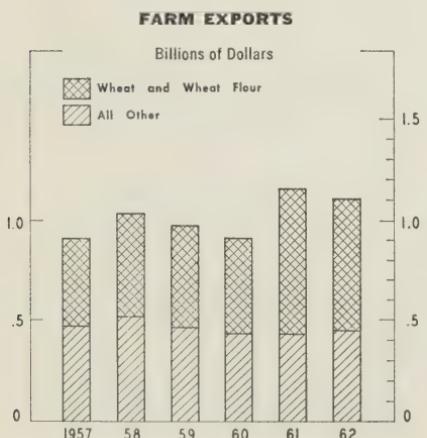


was a surplus of exports for the year as a whole amounting to \$155 million compared to \$173 million in 1961.



There was a quite broadly-based expansion in exports of fully manufactured goods to the United States in 1962 with a substantial increase in shipments of aircraft and parts. Exports of fully manufactured goods to overseas countries also increased substantially over their 1961 level, but overseas shipments of

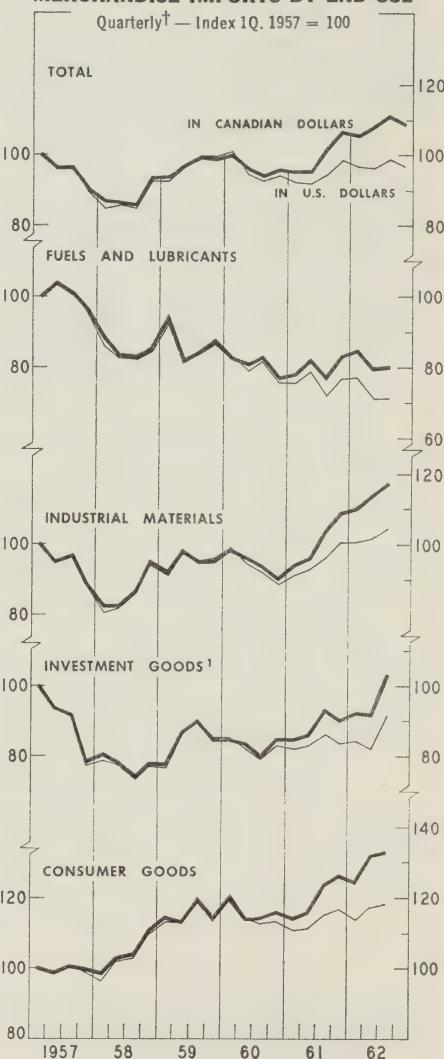
Exports of non-farm commodities to the United States, which rose strongly through the first half of 1962, eased off after mid-year as industrial activity in the United States levelled out. For 1962 as a whole, non-farm exports to the United States were 18 per cent higher than in 1961; very large increases on a year-to-year basis occurred in shipments of crude petroleum, natural gas and iron ore, and significant gains were also recorded in exports of most other industrial materials, except newsprint which failed to show any increase over the previous year and uranium which declined again in 1962.



non-farm exports to overseas countries were virtually unchanged from 1961. Farm exports in 1962 were lower than in 1961, mainly as a result of a decline of 9 per cent in wheat shipments from their unusually high 1961 level. Wheat exports to mainland China increased further, but shipments to Western and Eastern European countries and to India and Pakistan were considerably lower.

An important factor in the 1961-62 rise in the value of imports was the lower exchange value of the Canadian dollar. If this factor is allowed for by valuing Canadian commodity imports in United States dollars, the growth in imports over the current cyclical expansion from the beginning of 1961 to the second half of 1962 was only 6 per cent, compared to an 11 per cent rise in real output over this period. In the second half of 1962 imports into Canada valued in United States dollars were less than they were at the end of the 1954-57 expansion, while during the same 5½ year period real Gross National Product increased 16 per cent and the index of industrial production increased 19 per cent. The decline in the exchange rate and the temporary import surcharges no doubt exerted an important restraining influence on the volume of imports in the latter part of this period, but other developments have also contributed to the relative stability in imports. For some time a tendency toward import displacement has been evident in fuels (where domestically produced oil and natural gas have displaced imported coal and oil), in pipe, structural shapes and certain other types of steel products, and in automobiles and some other fully manufactured goods. The increase in imports during the current cyclical expansion has been largely confined to industrial materials, automobile parts and certain types of machinery and electrical equipment.

MERCHANDISE IMPORTS BY END-USE

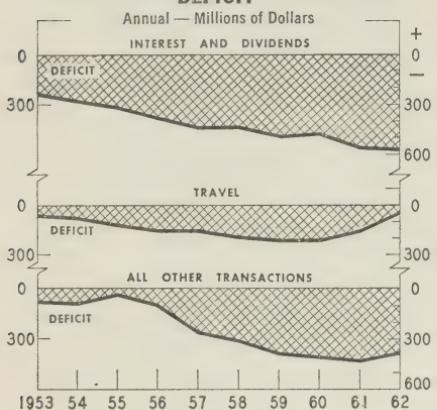


<sup>†</sup> Seasonally adjusted.

<sup>1</sup> Excludes imports of military aircraft under special arrangements.

**NON-MERCHANDISE TRADE.** Non-merchandise receipts from abroad increased by 7½ per cent in 1962. Since non-merchandise payments were slightly lower than in 1961, the non-merchandise deficit fell from \$1,155 million to \$1,003 million, the first decline in many years.

**COMPONENTS OF THE NON-MERCHANDISE DEFICIT**



As may be seen in the table on page 38 the main source of the improvement was the travel account where the deficit fell from \$160 million in 1961 to \$50 million in 1962. This deficit has been narrowing since 1960 when expenditures began to rise somewhat less rapidly and receipts more rapidly, and a particularly marked improvement was apparent in the second half of 1962 when Canadian travel expenditure in other countries dropped sharply. The decline in the exchange rate and the reduction in tourist exemptions undoubtedly contributed to these developments.

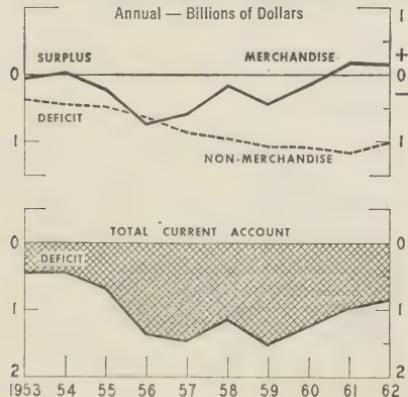
In the rest of the non-merchandise account, net payments of interest and dividends, although unusually high in the first half of the year, were only slightly larger in 1962 than they were in 1961; an increase in the freight and shipping deficit was much more than offset by declines in net payments of inheritances and migrants' funds and official contributions.

**CURRENT ACCOUNT BALANCE.**

Since the merchandise surplus of \$155 million in 1962 was only slightly less than the surplus of \$173 million in 1961,

the improvement in the non-merchandise balance was reflected in a decline in the over-all current account deficit from \$982 million in 1961 to \$848 million in 1962. This further improvement occurred in a period of continued expansion in Canada and thus appears to confirm the underlying improvement in the trend which has been under way for some time. On a regional basis, the current account deficit with the United States fell from \$1,386 million in 1961 to \$1,116 million in 1962 while the

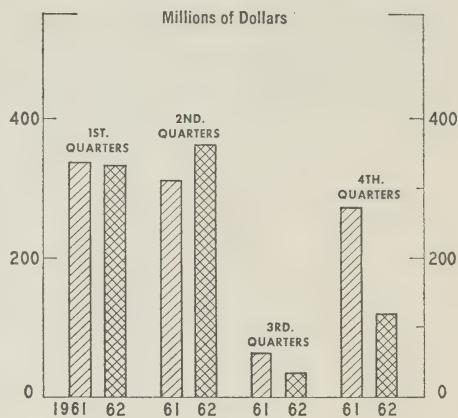
**BALANCE OF INTERNATIONAL PAYMENTS ON CURRENT ACCOUNT**



surplus with other countries dropped to \$268 million in 1962 from the unusually high level of \$404 million in 1961.

As the accompanying chart shows, the improvement in the current account deficit from 1961 to 1962 was irregularly distributed by quarters. This seems to have been due in considerable measure to distortions in the timing of transactions in 1962 associated with the foreign exchange difficulties; these included a relatively high level of dividend payments in the second quarter followed by a relatively low level in the third quarter and a relatively high level of commodity imports in the third quarter followed by a relatively low level in the fourth quarter.

INTERNATIONAL PAYMENTS DEFICITS ON CURRENT ACCOUNT

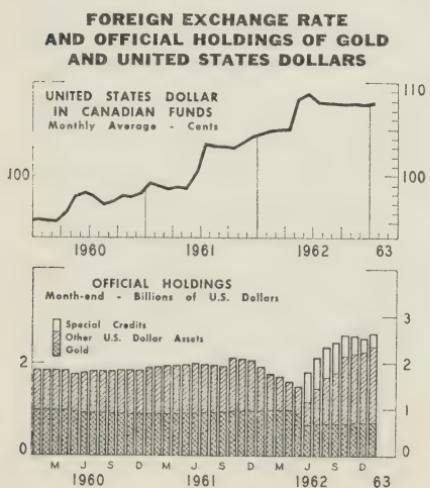


**THE CAPITAL ACCOUNT OF THE BALANCE OF PAYMENTS.** The table on page 39 indicates that the current account deficit in 1962 was financed in ways which for the year as a whole did not differ in their broad lines from those of 1961. Over four-fifths was covered by net inflows of long-term capital, the largest component of which was direct investment in Canada. Short-term funds more than covered the remainder of the deficit, and reserves increased. Within the year, however, large changes occurred in the flow of capital between Canada and other countries and the reserves varied by large amounts in both directions.

In the first half of the year the net inflow of long-term capital virtually disappeared. A net inflow of direct investment capital continued at a reduced level, but new issues of Canadian securities abroad gave rise to no net inflow of funds and there was an outflow arising from transactions in outstanding common and preferred stocks and foreign securities. There was also a substantial outflow of capital in short-term forms, particularly in the second quarter of the year when Canadians increased their short-term foreign currency holdings by \$245 million. There was also an outflow in the category "all other transactions, including changes in loans and accounts receivable and payable", which has shown substantial net receipts in recent years. With net long-term inflows negligible in amount, the burden of financing the current account deficit and the short-term outflow fell upon the reserves of gold and United States dollars, which

amounted to about \$U.S. 1,100 million on June 24 compared with \$U.S. 2,056 million at the beginning of the year.

The reserves recovered in the second half of the year as the inflow of capital was resumed on a substantial scale. The most immediate effect of the emergency measures was the reversal of short-term capital movements. The short-term inflow amounted to \$460 million in the third quarter; the disposal by Canadians of foreign currency assets acquired in the previous quarter made up more than half of this total and the largest part of the remainder represented borrowings of foreign currencies by residents. The inflow of short-term capital continued in the fourth quarter but at a much reduced rate. Long-term capital inflows also revived after mid-year and amounted in the second half of the year to \$707 million, nearly two-thirds of which occurred in the fourth quarter. Direct investment was larger in the second half of the year than in the first half due to the acquisition by non-residents of a number of existing enterprises including a large resident-owned oil company. New issues of Canadian securities in foreign currencies were encouraged by the widening in the spread between interest rates in Canada and in other countries; an increasing number of such issues were negotiated by provinces, municipalities and corporations as the second half of the year progressed, although the effects on the balance of payments were not large until the fourth quarter of the year. In that quarter, the balance of payments was also strengthened by receipt of half of the proceeds of the Government of Canada issue of \$250 million in New York. In the second half of the year the Government received advance repayments of debt from France and the Netherlands. Sales of outstanding Canadian bonds were resumed on an appreciable scale and purchases of foreign securities by Canadians were smaller but non-resident selling of Canadian stocks continued.



The capital inflows in the second half-year were much larger than the current account deficit and the official exchange reserves rose more than they had fallen in the first half-year. At the end of December, official holdings of gold and United States dollars amounted to \$U.S. 2,539 million, of which \$U.S. 300 million represented the proceeds of the drawing from the International Monetary Fund.

The price quoted for United States funds in the Canadian foreign exchange market moved from 104 11/32 at the end of 1961 to 105 in the early months of 1962. On May 2, 1962 a new fixed par value of 92.5 United States cents to the Canadian dollar, equivalent to approximately 108.1 Canadian cents to the United States dollar, was established with the concurrence of the International Monetary Fund. Following the announcement of the exchange emergency programme, the quotation of the United States dollar in the inter-bank market in Canada fell from 109 to a rate below its par value equivalent; during the last five months of the year it moved within the range of 107 17/32 - 107 27/32, closing the year at 107 23/32.

**CANADIAN BALANCE OF INTERNATIONAL PAYMENTS  
ON CURRENT ACCOUNT**

(A positive figure indicates a receipt and a negative figure indicates a payment)

(millions of dollars)

	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>
<b>With All Countries</b>				
Merchandise exports <sup>(1)</sup> .....	5,150	5,392	5,889	6,364
Merchandise imports <sup>(1)</sup> .....	—5,572	—5,540	—5,716	—6,209
Balance on merchandise trade.....	—422	—148	173	155
Gold production available for export.....	148	162	162	165
Travel.....	—207	—207	—160	—50
Interest and dividends.....	—489	—480	—561	—570
Freight and shipping.....	—105	—91	—82	—90
Inheritances and migrants' funds.....	—56	—79	—71	—39
All other current transactions <sup>(2)</sup> .....	—301	—339	—387	—387
Official contributions.....	—72	—61	—56	—32
Balance on non-merchandise items.....	—1,082	—1,095	—1,155	—1,003
Balance on current account.....	—1,504	—1,243	—982	—848
<b>With The United States</b>				
Merchandise exports <sup>(1)</sup> .....	3,191	3,040	3,213	3,742
Merchandise imports <sup>(1)</sup> .....	—3,727	—3,713	—3,828	—4,217
Balance on merchandise trade.....	—536	—673	—615	—475
Balance on non-merchandise items.....	—694	—688	—771	—641
Balance on current account.....	—1,230	—1,361	—1,386	—1,116
<b>With All Other Countries</b>				
Merchandise exports <sup>(1)</sup> .....	1,959	2,352	2,676	2,622
Merchandise imports <sup>(1)</sup> .....	—1,845	—1,827	—1,888	—1,992
Balance on merchandise trade.....	114	525	788	630
Balance on non-merchandise items.....	—388	—407	—384	—362
Balance on current account.....	—274	118	404	268

SOURCE: Dominion Bureau of Statistics.

(1) Excluding non-commercial items.

(2) Includes business services, Government transactions and personal or institutional remittances not elsewhere included.

**CANADIAN BALANCE OF INTERNATIONAL PAYMENTS  
ON CAPITAL ACCOUNT**

(A positive figure indicates an inflow of capital into Canada, and thus an increase in Canadian liabilities or a decrease in Canadian assets. A negative figure indicates the reverse.)

(millions of dollars)

	1960	1961	1962	I <sup>1</sup> Q	II <sup>1</sup> Q	III <sup>1</sup> Q	IV <sup>1</sup> Q	1962
Foreign direct investment in Canada <sup>(1)</sup> ....	650	515	525	110	80	145	190	
Canadian direct investment abroad <sup>(1)</sup> ....	-50	-80	-100	-30	-30	-15	-25	
Net new issues of Canadian stocks.....	17	-6	-18	-2	—	-4	-12	
Net trade in outstanding Canadian stocks..	51	40	-116	-14	-44	-26	-32	
Net new issues of Canadian bonds								
Government of Canada.....	-27	-11	69	-16	-15	1	99	
Provincial.....	46	43	130	7	1	12	110	
Municipal.....	95	8	48	—	-4	24	28	
Corporate.....	51	202	184*	-7	150*	6	35	
Total.....	165	242	431	-16	132	43	272	
Net trade in outstanding Canadian bonds..	3	63	64	-3	4	39	24	
Net transactions in foreign stocks and bonds	-19	-33	-79	-29	-36	-9	-5	
Net Government of Canada loan repayments	32	37	122	3	7	61	51	
Other long-term capital movements.....	59	12	-111	6	-127	26	-16	
Total capital movements in long-term forms	908	790	718	25	-14	260	447	
Private short-term capital movements								
Canadian holdings of foreign assets <sup>(2)</sup> ...	-60	113	78	49	-245	257	17	
Foreign holdings of Canadian assets <sup>(2)</sup> ..	120	-34	-28	-32	34	-54	24	
Other short-term capital movements <sup>(3)</sup> ..	241	402	238	-84	-48	263	107	
Canadian dollar subscriptions to international financial agencies less changes in their Canadian dollar holdings <sup>(4)</sup> .....	-5	-60	49	11	42	-6	2	
Total capital movements in short-term forms	296	421	337	-56	-217	460	150	
Special I.M.F. and central bank credits...	—	—	330	—	707	—	-377	
Official holdings of gold and foreign exchange (minus sign indicates increase)	39	-229	-537	364	-114	-686	-101	
Net capital inflows.....	1,243	982	848	333	362	34	119	

SOURCE: Dominion Bureau of Statistics.

(1) Exclusive of undistributed earnings.

(2) Includes mainly changes in bank balances and treasury bill holdings.

(3) Includes borrowings from non-residents by finance companies, changes in non-resident holdings of commercial paper, changes in loans between private unrelated parties, changes in receivables and payables, and a balancing item representing errors and omissions.

(4) Excluding special credits.

\* Includes \$125 million of new borrowings which did not involve any net capital inflows since the proceeds were applied to the reduction of other liabilities, reflected in the categories of direct investment and other long-term capital movements.

**SUMMARY OF THE REGIONAL STRUCTURE OF THE CANADIAN  
BALANCE OF INTERNATIONAL PAYMENTS: 1946-1961**

(A positive figure indicates a surplus and a negative figure indicates a deficit)

	(millions of dollars)					
	<u>1946</u>	<u>1947</u>	<u>1948</u>	<u>1949</u>	<u>1950</u>	<u>1951</u>
1. Balance on transactions with the United States						
On current account*.....	-703	-1,233	-512	-740	-563	-1,101
On capital account.....	+88	-164	+111	+64	+961	+554
Total balance with the United States.....	-615	-1,397	-401	-676	+398	-547
2. Balance on transactions with other countries						
On current account.....	+970	+1,183	+844	+778	+66	+434
On capital account.....	-694	-554	-66	-107	+67	+2
Total balance with other countries.....	+276	+629	+778	+671	+133	+436
3. Canadian gold production available for export*	+96	+99	+119	+139	+163	+150
4. Payments of gold and U.S. dollars to international financial agencies.....	-8	-74	—	—	—	—
5. Increase (+) or decrease (-) in official holdings of gold and U.S. dollars (equals total of 1, 2, 3 and 4).....	-251	-743	+496	+134	+694	+39

SOURCE: Dominion Bureau of Statistics.

\*In the regional statements of the Canadian balance of international payments published by the Dominion Bureau of Statistics gold production available for export is treated as a receipt in the current account with the United States. In this table it is treated as a means of international settlement.

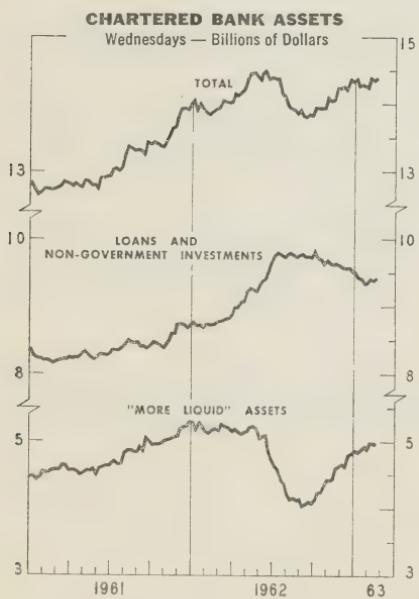
<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>
-999	-1,048	-962	-1,190	-1,789	-1,726	-1,336	-1,378	-1,523	-1,548
-78	+202	+398	+383	+894	+964	+1,060	+1,341	+990	+1,366
<hr/>									
-1,077	-846	-564	-807	-895	-762	-276	-37	-533	-182
<hr/>									
+1,013	+461	+375	+337	+273	+124	+45	-274	+118	+404
-6	+199	+155	+273	+510	+387	+179	+155	+217	-157
<hr/>									
+1,007	+660	+530	+610	+783	+511	+224	-119	+335	+247
<hr/>									
+150	+144	+155	+155	+150	+147	+160	+148	+162	+162
<hr/>									
—	—	—	—	-4	—	—	-59	-3	—
<hr/>									
+80	-42	+121	-42	+34	-104	+108	-67	-39	+227

## Monetary and Financial Developments

The rising credit demands associated with the cyclical expansion in economic activity in Canada were accommodated with only minor changes in credit conditions in the latter part of 1961 and the early part of 1962. Following an upward adjustment of approximately  $\frac{1}{2}$  of one per cent in December 1961 the yield on treasury bills remained fairly steady at a little over 3 per cent in the first months of 1962 while bond yields continued to fall slowly. The spread in interest rates between the Canadian and United States markets showed little change, remaining close to 0.3 per cent for treasury bills and 0.9 per cent for long-term Government bonds.

Chartered bank assets, which had risen substantially in 1961, continued on a strong upward trend in the early months of 1962.

The cyclical expansion in bank loans gathered strength toward the close of 1961 and accelerated further in the second quarter of 1962. On the other hand the banks' holdings of "more liquid" assets (Government securities, loans to securities dealers, net foreign assets and cash reserves) stopped rising after the end of 1961; as a proportion of total bank assets they gradually declined from a peak of almost 38 per cent reached in January 1962 to about 35 per cent at the beginning of June. While the chartered banks' holdings of Government bonds continued to rise gradually until the end of May, their holdings of treasury bills were reduced appreciably after mid-March and on a monthly average basis the ratio of

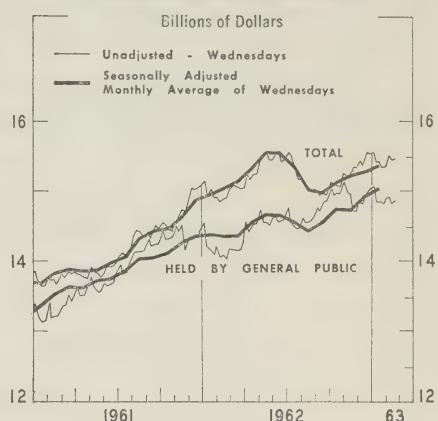


liquid assets (cash, day-to-day loans and treasury bills) to deposits declined to 17 per cent in April and May, having previously attained a peak of 19 per cent in the autumn of 1961.

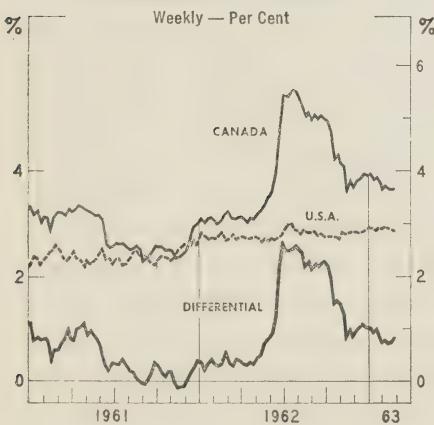
Total currency outside banks and chartered bank deposits (seasonally adjusted) continued to rise strongly during the first part of 1962 though the upward trend in the money supply held by the general public tended to flatten out. The Government was able to add to its cash balances during this period as well as finance its current operations out of the proceeds of its sales of foreign exchange to the public and there was little change in the amount of its outstanding debt held by the public or by the banking system.

In the early part of May the yield on treasury bills began rising fairly rapidly, and upward pressure on market interest rates became general during the latter part of May and in June as the chartered banks and others reduced their holdings of Government securities. After the announcement of the Government's programme of emergency measures and the fixing of the Bank Rate at 6 per cent on June 24, interest rates through the whole maturity range of Government securities levelled off around  $5\frac{1}{2}$  per cent in mid-July. The differential between Canadian and United States yields had risen to more than

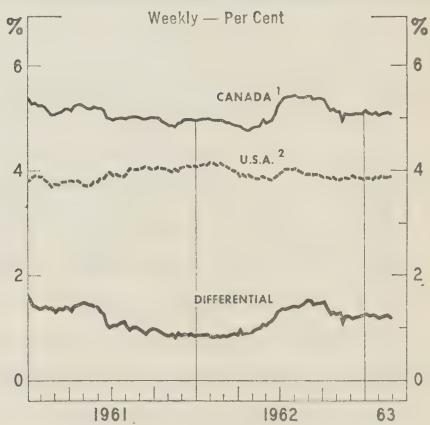
#### CURRENCY OUTSIDE BANKS AND CHARTERED BANK DEPOSITS



#### TREASURY BILL YIELDS



#### LONG-TERM GOVERNMENT BOND YIELDS

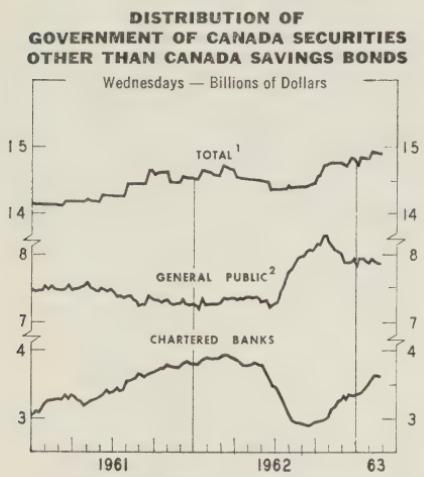


1.  $3\frac{3}{4}\%$  Jan. 15, 1975-78.

2.  $3\frac{1}{4}\%$  June 15, 1978-83.

2½ per cent on treasury bills and to 1½ per cent on long-term Government bonds.

A strong non-bank demand for Government securities developed, which was met, under the monetary policy followed, mainly by continued chartered bank sales. The public's demand for mid-term and long-term bonds was sup-



1. Includes holdings of Bank of Canada and Government accounts.

2. Excludes securities involved in special currency arrangements between the Bank of Canada and other central banks.

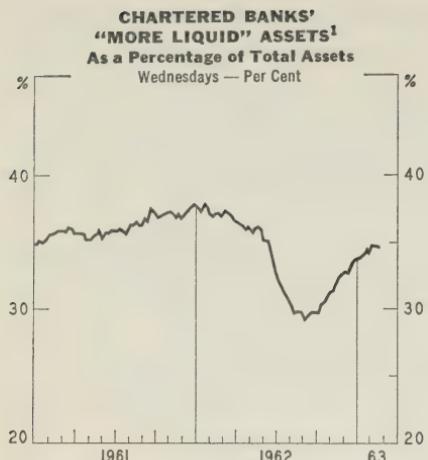
plied in part by sales from the Bank of Canada's portfolio, with the Bank taking in exchange short-term bonds and treasury bills which came principally from chartered bank selling. In addition, the Government increased the supply of mid-term and long-term securities available to the market by offering new issues due in 1969 and 1980 to provide most of the funds required to pay off the \$285 million maturity of August 1. From June to September the public's holdings of market issues of Government securities increased by over \$750 million.

The "more liquid" assets of the chartered banks fell by \$875 million from June to September as their holdings of Government securities decreased by \$735 million and their net foreign assets by \$130 million. The ratio of "more liquid" assets to total assets fell from 35 per cent at the beginning of June to a low of 29 per cent early in September. The liquid asset ratio, which had fallen to 16 per cent in June, declined further to 15½ per cent in July and August and then rose to 16 per cent again in September. With loans and non-Government investments continuing to rise until July, the reduction in total chartered bank assets from June to September amounted to \$600 million and the reduction in total currency and bank deposits to \$550 million. During this period Government cash balances fell from their unusually high level as the Government bought large amounts of foreign exchange from the public. There was an increase in the amount of currency and bank deposits held by the general public between June and September but it was less than seasonal.

Market rates of interest began to decline toward the end of the summer. The treasury bill rate came down from the 5½ per cent level reached in July to around 5 per cent by the beginning of September. Yields on short-term bonds also fell but long-term yields remained close to the July levels. After the reduction in the Bank Rate to 5½ per cent on September 7, market rates continued to decline and the Bank Rate was reduced to 5 per cent on October 12 and to 4 per cent on November 13. Treasury bill yields fell to just over 4 per cent at the beginning of November and remained near the 3¾ per cent level from November to February 1963. Yields on long-term Government bonds declined in October and then levelled off at about 5.1 per cent. The spread between treasury bill rates in Canada and the United States narrowed from over 2½ per cent in July to just under 1 per cent in November. In the case of long-term yields the spread narrowed from 1.5 per cent to 1.2 per cent.

Chartered bank loans turned down at the end of September and declined more than seasonally during the rest of the year. The increase in bank loans earlier in 1962 had been unusually rapid: from December 1961 to July 1962 bank loans (seasonally adjusted) had risen at a rate of over 25 per cent per annum, and the increase was particularly marked during June and July. It seems probable that in addition to the cyclical expansion in economic activity which was occurring, there were other special influences swelling the demand for bank loans during the summer months—for example, advance buying of imports and remittance of earnings abroad, and reluctance to finance in the new issue market in view of the fall in the stock market and rise in interest rates in May and June. It also seems probable that the decline in bank loans in the latter part of the year in part reflected the reversal of these temporary influences. As market interest rates declined, the incentive for provinces, municipalities, public utilities and large business enterprises to use bank credit rather than offer new market issues of bonds or commercial paper was reduced, and there was a marked revival of the flow of new issues both of government and private securities. Another factor in the declining demand for bank loans toward the close of 1962 may have been a contraction in business requirements for the financing of inventories.

The decline in loans after September was accompanied by a rapid increase in chartered bank holdings of Government securities, net foreign currency assets and other liquid assets, so that total chartered bank assets resumed their expansion and increased by \$475 million from September to December. The



1. Government securities, loans to securities dealers, net foreign assets and cash reserves.

banks' "more liquid" assets rose by over \$650 million and the ratio of their "more liquid" assets to total assets rose from the low of 29 per cent reached in early September to 34 per cent at the end of the year. The liquid asset ratio rose from 16 per cent in September to 18 per cent in November and December.

The general public's holdings of currency and bank deposits resumed in September the upward trend which had been temporarily interrupted during the summer, and between September and December increased by \$330 million on a seasonally adjusted basis. At

the same time the public's holdings of market issues of Government securities declined as chartered bank holdings of such securities increased.

Increase or decrease (-) from				
Dec. 1961	Mar. 1962	June 1962	Sept. 1962	to Mar. 1962
	to June 1962	to Sept. 1962	to Dec. 1962	

(monthly average of Wednesdays — millions of dollars)

**Chartered Bank Assets\***

Cash reserves, day-to-day and call loans,				
net foreign assets.....	-137	31	-138	238
Government securities.....	116	-292	-737	424
Sub-total: "more liquid" assets.....	-21	-261	-875	662
Loans and non-Government investments.....	110	661	267	-188
Total.....	89	401	-608	474

**Currency Outside Banks and Chartered Bank Deposits\***

Held by general public.....	-164	413	183	110
Government deposits.....	190	34	-724	402
Total.....	27	448	-541	512

**Market Issues of Government Securities**

Held by general public.....	51	-62	766	-132
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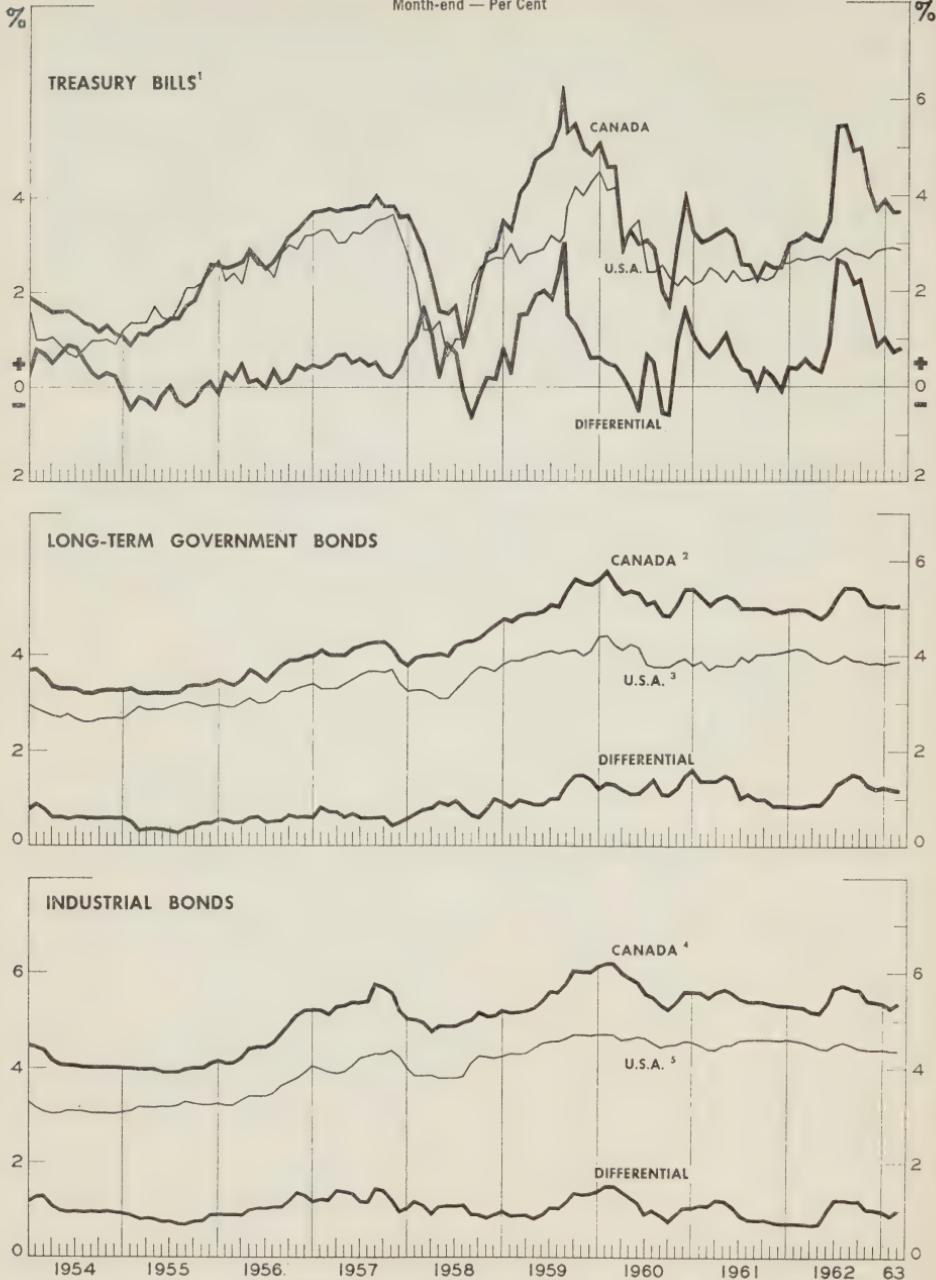
\*Tables giving these changes in more detail appear in the Appendices on pages 76 and 77.

In many respects developments during the latter part of the year represented a reversal, in part or in whole, of temporary disturbances in the pattern of Government and private financing, the structure of chartered bank assets, the financial asset holdings of the public and the level of interest rates which had emerged earlier in 1962 in connection with the decline in official holdings of foreign exchange and the response of public policy to the exchange difficulties. At the end of 1962 currency and bank deposits were 3 per cent higher than a year earlier; excluding Government deposits, the increase was nearly 4 per cent. Chartered bank liquidity, as measured by the proportion of their total assets in relatively liquid form, was 34 per cent at end-1962 compared with 37½ per cent a year earlier. Treasury bill yields at the end of 1962 were about 1 per cent above the end-1961 level and interest rates on long-term Government bonds about 0.1 per cent higher.

The interest rate on personal savings deposits of the chartered banks was increased from 2¾ per cent to 3 per cent effective July 1. Their prime commercial lending rate was increased from 5½ per cent to 6 per cent at the same time and was reduced to 5¾ per cent in mid-November.

### INTEREST RATES — CANADA AND UNITED STATES

Month-end — Per Cent



1. 91-day treasury bills. Last tender in month. 1978-83. Last Wednesday in month.

2. 3 3/4% Jan. 15, 1975-78. Last Wednesday in month.

3. 3 3/4% June 15, 1978-83. Last Wednesday in month.

4. Source: McLeod, Young, Weir and Co. Ltd.

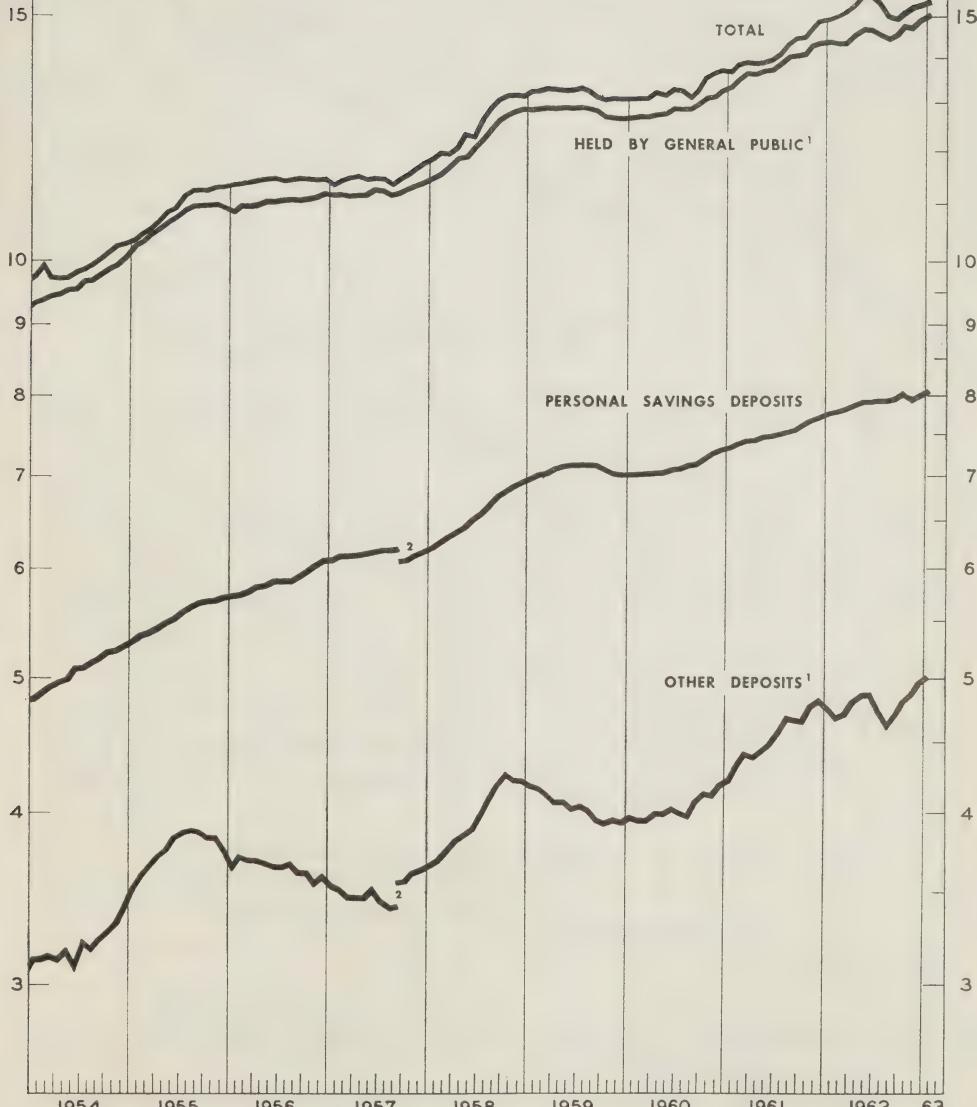
5. Source: Moody's Investors Service.

**CURRENCY OUTSIDE BANKS  
AND CHARTERED BANK DEPOSITS**

Seasonally Adjusted

Monthly Average of Wednesdays — Billions of Dollars

Ratio Scale

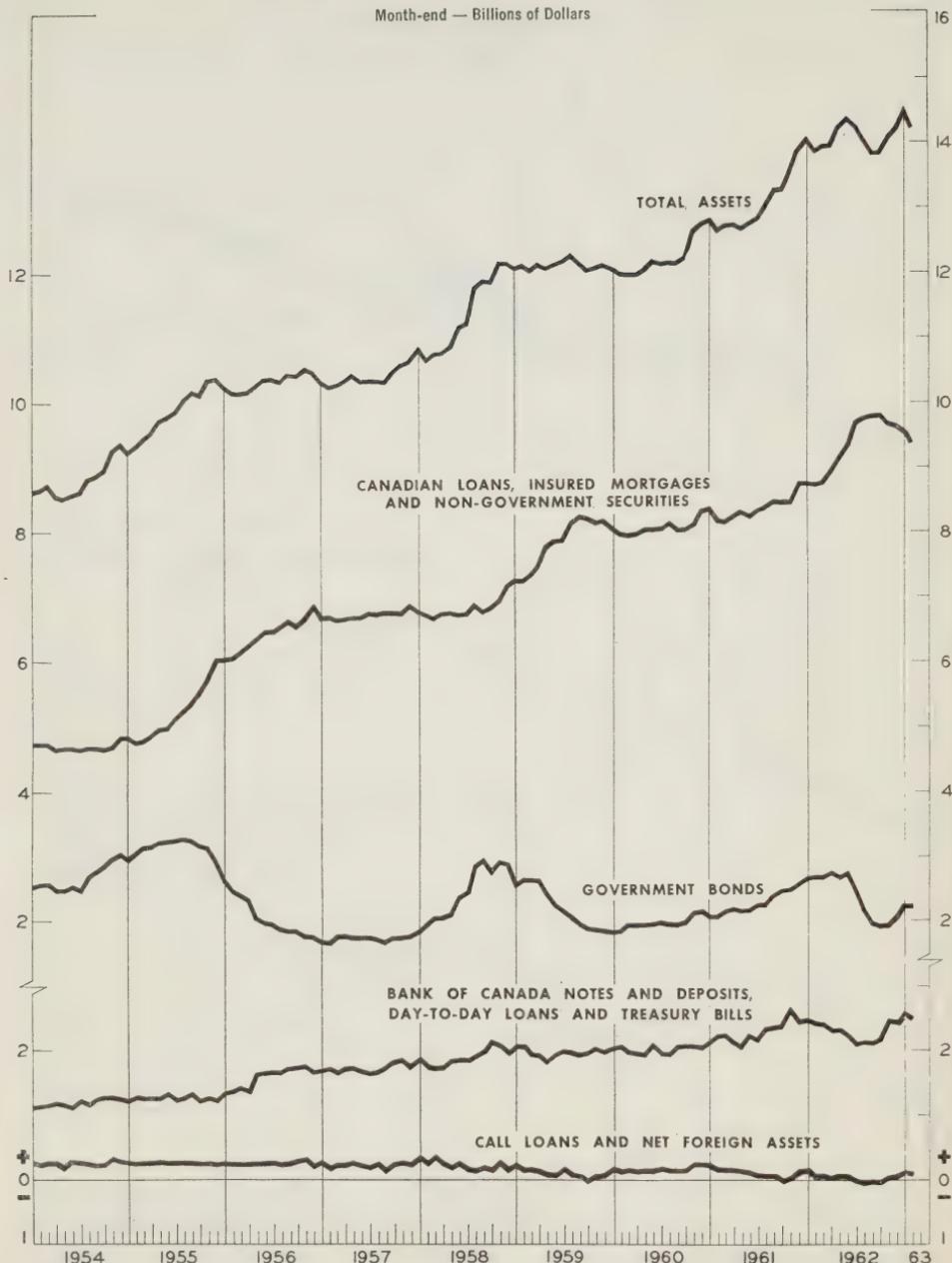


1. Excludes Government of Canada deposits.

2. Breaks reflect reclassification at Sept. 30, 1957, of certain deposits from "Personal Savings Deposits" to "Other Deposits".

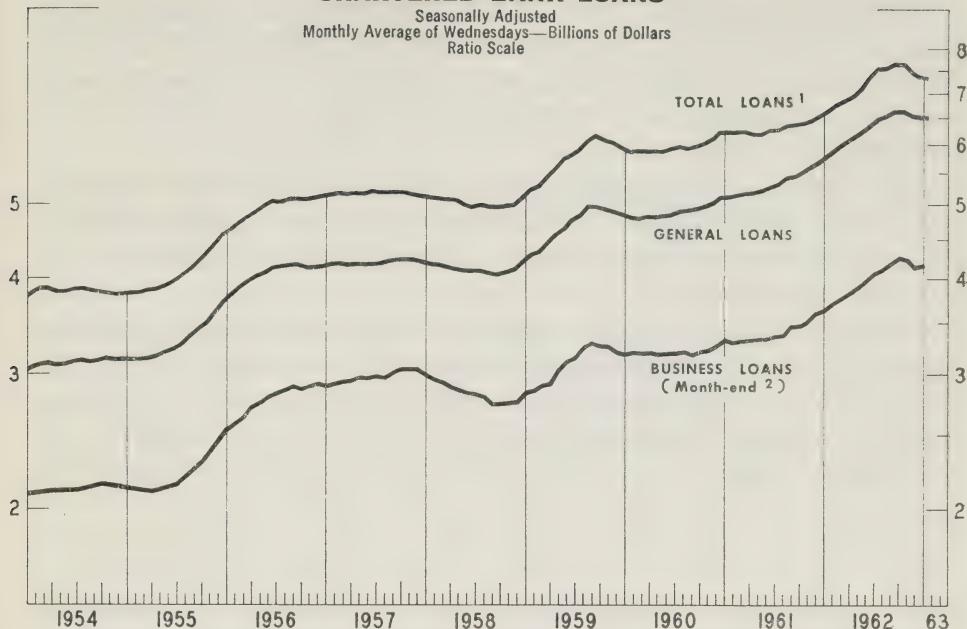
### CHARTERED BANK ASSETS

Month-end — Billions of Dollars



### CHARTERED BANK LOANS

Seasonally Adjusted  
Monthly Average of Wednesdays—Billions of Dollars  
Ratio Scale



1. Excludes call loans and loans for the purchase of Canada Savings Bonds.

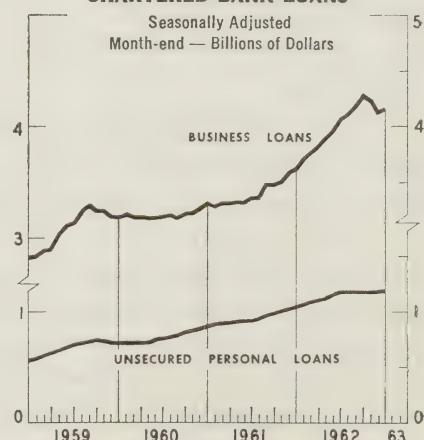
2. Plotted at quarter-ends for 1954 and 1955.

**CHARTERED BANK LOANS.** After allowing for normal seasonal movements total chartered bank loans, which had been rising gradually in the second half of 1961, rose sharply from November 1961 to July 1962. They continued to increase, but at a slower rate, until September and then declined during the rest of 1962 and the early weeks of 1963.

General loans (i.e. business loans, personal loans, loans to farmers and to non-business institutions), which had been increasing from early in 1960 to the third quarter of 1961 at an average rate of about 8 per cent per annum, rose by 22 per cent from September 1961 to September 1962 and then declined. Both business and personal loans contributed to the strength in general loans in 1961 and the first half of 1962. Personal loans levelled off after June while business loans continued to rise until September and then declined during the fourth quarter.

### CHARTERED BANK LOANS

Seasonally Adjusted  
Month-end — Billions of Dollars



Other categories of loans (i.e. loans to provinces, municipalities, grain dealers and instalment finance companies) rose during the first seven months of 1962, levelled off in August and September, and declined considerably thereafter; in total there was very little change in these types of loans over the year as a whole.

In 1962 business loans increased by \$515 million or 15 per cent. Business loans with authorized limits of less than \$100,000 increased by \$125 million or 11 per cent, and those with authorized limits of more than \$100,000 by \$390 million or 17 per cent.

Personal loans rose by \$190 million or 13 per cent in 1962; most of the increase was in instalment-type consumer loans which rose strongly in the first half of the year. Loans to farmers increased by \$70 million or 15 per cent and loans to non-business institutions by \$20 million or 9 per cent. Further details of the changes in chartered bank loans are given in the table in the Appendix on page 80.

**BANK OF CANADA OPERATIONS.** The Bank of Canada was unusually active in the Government securities market in 1962, and at times the scale of its transactions exerted a considerably stronger direct influence on the level and structure of market yields than the Bank would normally consider necessary or desirable in its day-to-day cash management.

During the summer months, in the face of the strong non-bank demand, the Bank sold substantial amounts of bonds to the market both for cash and in exchange for treasury bills and near-by maturities. Sales of maturities dated 1972 or later, which were mainly for cash, amounted to \$140 million in August and September. The Bank's sales of bonds to the market were effected to resist a premature narrowing of the spread between interest rates in Canada and the United States.

On the other hand, there were also occasions in 1962 when the Bank provided temporary market support by substantial purchases of securities in circumstances where disorderly conditions threatened to develop. In a period of little more than two weeks in June, for example, when bond prices were declining rapidly, the Bank bought some \$150 million of short-term bonds for cash, while at the same time the Government's Purchase Fund was providing substantial support in the long-term area of the market. Again during the Cuban crisis in late October the Bank intervened to steady the market, purchasing \$111 million of short-, mid- and long-term Government bonds for cash in three days, of which

\$73 million were bought in one day. When market confidence recovered during the next few days, many of the bonds purchased by the Bank were resold.

The large effects on the cash reserve position of the chartered banks which would otherwise have arisen from the transactions described in the previous paragraphs were prevented in various ways, including temporary changes in the level of Government balances with the Bank of Canada and transactions between the Bank of Canada and the Government's Securities Investment Account.

In addition to its cash purchases and sales of securities in 1962 the Bank from time to time conducted extensive switching operations in the market, including those mentioned above. These involved mainly the purchase of near-by maturities in exchange for other Government issues, thus facilitating the management of refunding operations as well as influencing the pattern of interest rates.

The Bank Rate, the minimum rate at which the Bank makes advances to the chartered banks, was maintained at  $\frac{1}{4}$  of 1 per cent above the average rate on three-month treasury bills at the preceding weekly tender until June 24. On that date the Bank Rate was set for the time being at the fixed level of 6 per cent, while the Money Market Rate (i.e. the rate at which the Bank of Canada is prepared to enter into purchase and resale agreements with money market dealers) was continued at  $\frac{1}{4}$  of 1 per cent above the average rate on three-month treasury bills at the preceding weekly tender, subject to the proviso that the Money Market Rate cannot go higher than the Bank Rate. The continuance of a special Money Market Rate geared to the treasury bill rate provides for a lower effective ceiling on the day loan rate in circumstances in which market rates are well below the Bank Rate. The Bank Rate was reduced to  $5\frac{1}{2}$  per cent on September 7, to 5 per cent on October 12, and to 4 per cent on November 13.

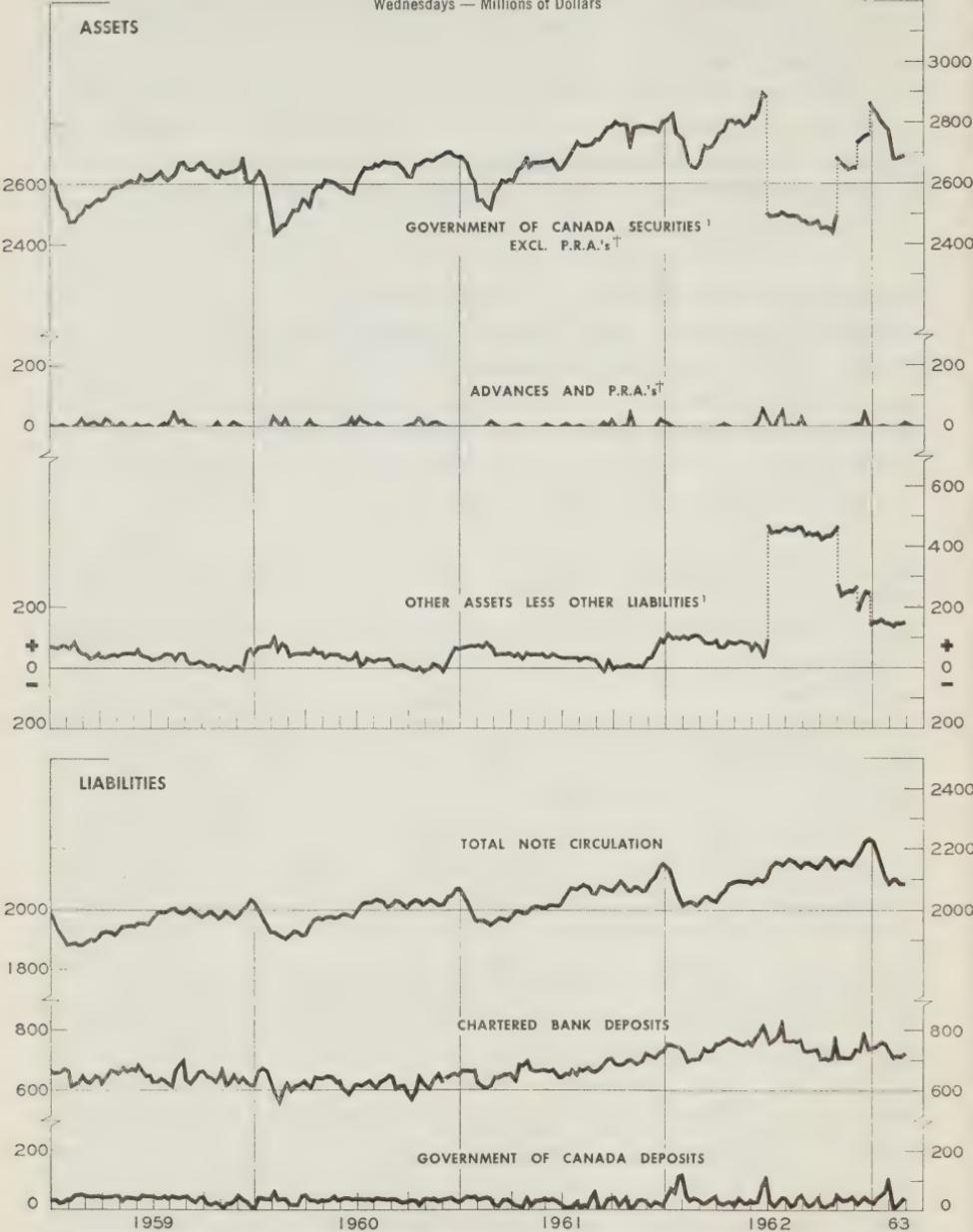
The assets and liabilities of the Bank of Canada at December 31, 1962, together with comparative figures for December 31, 1961, are set forth in the balance sheet at the end of this Report.\* At the end of 1962 the Bank held \$3 million of bankers' acceptances which are shown in the balance sheet under the heading "Bills bought in open market". In order to assist in the development of a more active market in bankers' acceptances, the Bank of Canada agreed in 1962 to deal in these obligations both for cash and under purchase and resale agreements with money market dealers; the largest amount held at any one time was \$5 million on December 19.

The effect of the currency arrangements entered into with the Federal Reserve System and the Bank of England on the Bank of Canada's balance sheet was an increase on June 26 of \$378 million (the equivalent of U.S. \$350 million) in the Bank's foreign currency assets, shown under the heading of "Other

\* A table giving the composition of Bank of Canada note liabilities appears in the Appendix on page 90.

### BANK OF CANADA ACCOUNTS

Wednesdays — Millions of Dollars



1. Breaks reflect special currency arrangements with other central banks.

† Securities purchased from money market dealers under resale agreements.

securities", and a corresponding decline in the Bank's holdings of Government of Canada securities. The outstanding amounts involved were reduced by \$189 million (the equivalent of U.S. \$175 million) on October 31, by \$81 million (U.S. \$75 million) on November 30, and by the remaining \$108 million (U.S. \$100 million) on December 26, 1962.

The monthly figures for chartered bank cash reserves and cash reserve requirements are shown in the Appendix on pages 78 and 79. Bank of Canada advances to banks were outstanding on 37 business days during 1962 compared with 10 days in 1961; the maximum amount outstanding on any one day was \$53 million and the daily average for the year was \$3 million as compared with \$0.2 million in 1961. The Bank of Canada held securities purchased from money market dealers under resale agreements on 50 business days during the year compared with 55 days in the previous year; the maximum amount outstanding on any one day was \$101 million and the daily average for the year was \$3 million, the same as in 1961.

In order to offset approximately the effect on cash reserves of seasonal changes in statutory till money in February and March of 1962 the Bank of Canada sold to the Securities Investment Account of the Government \$40 million of Government bonds for delivery on February 1 and repurchase on March 1.

During the month of December the net earnings of the Bank of Canada for 1962 were transferred to the Receiver General of Canada in several instalments totalling \$96.7 million. These transfers and the subsequent redeposit in Government accounts with the chartered banks offset the effect on cash reserves of the usual sharp seasonal rise in note circulation.

**GOVERNMENT OF CANADA FINANCING.** In 1962 the current expenditures of the Government of Canada exceeded its current revenues and there was a deficit, on a national accounts basis, of \$460 million\* compared to \$446 million in 1961. Other cash requirements of the Government were lower in 1962 than in 1961. Advance loan repayments were received from France and the Netherlands, while cash requirements for mortgage lending by Central Mortgage and Housing Corporation and for the accumulation of foreign exchange reserves by the Exchange Fund were less than 1961.\*\* Total cash requirements amounted to \$810 million in 1962 compared to \$1,027 million in 1961. Some of the main items in the financial requirements of the Government of Canada are shown in the table on the following page.

\* Preliminary estimate.

\*\* The total increase in official holdings of gold and U.S. dollars was U.S. \$227 million in 1961 and U.S. \$484 million in 1962. See footnote (4) to the table on the following page.

**GOVERNMENT OF CANADA FINANCIAL REQUIREMENTS 1961-1962**

(millions of dollars)

	<u>1961</u>	<u>1962</u>
Deficit, national accounts basis <sup>(1)</sup> .....	446	460 <sup>(2)</sup>
Canadian National Railways <sup>(3)</sup> .....	23	6
Central Mortgage and Housing Corporation.....	195	141
Other loans and investments in		
Government business enterprises.....	103	110
Loans to foreign governments.....	-37	-155
Advances to the Exchange Fund <sup>(4)</sup> .....	293	147
All other requirements (residual).....	4	101
 Total cash requirements (financed by change in direct and guaranteed securities held outside Government accounts less change in Canadian dollar bank deposits).....	 1,027	 810

(1) For an explanation of national accounts basis see footnote on page 29.

(2) Preliminary estimate.

(3) Includes requirements financed by net new issues of Government-guaranteed C.N.R. securities.

(4) Excludes advances which were offset by changes in I.M.F. holdings of demand notes in connection with Australian, U.K. and Canadian drawings.

The financing operations of the Government of Canada in 1962 were greatly affected by sales of foreign exchange from the official reserves in the first half of the year which provided the Government with \$990 million in Canadian dollars and by purchases of foreign exchange to rebuild the official reserves in the second half of the year which required \$1,135 million. A summary of these operations is given in the table on the following page. A table summarizing the details of new issues and retirements of Government of Canada direct market securities in 1962 appears in the Appendix on page 81. Tables summarizing the distribution of holdings of Government securities and the classification by term to maturity of the total outstanding and the portion held by the general public appear in the Appendices on pages 82 and 83.

**SUMMARY OF GOVERNMENT OF CANADA FINANCING**

(millions of dollars)

		1962				
	1961	Total	IQ	IIQ	IIIQ	IVQ
Market bonds: Gross new issues.....	2,200	1,585 <sup>(1)</sup>	400	200	200	785 <sup>(1)</sup>
Retirements.....	1,358	1,393	178	336	289	590
Net new issues.....	842	192	222	-136	-89	196
Treasury bills: Net new issues.....	-100	280	-	-	145	135
Canada Savings Bonds: Net new issues...	486	540	-21	-70	-137	789
Total net new issues <sup>(2)</sup> .....	1,228	1,012	201	-206	-82	1,099
 Deduct: Net purchases of market securities by all Government accounts <sup>(3)</sup> ....	117	225	128	237	-170	29
 Sub-total: (Equals increase in Government securities held outside Government accounts).....	1,110	787	72	-444	88	1,070
 Deduct: Increase in Canadian dollar bank deposits.....	84	-23	135	106	-715	451
 Sub-total: (Equals total cash requirements as per table on page 56).....	1,027	810	-63	-550	803	619
 Deduct: Increase in advances to the Exchange Fund Account <sup>(4)</sup> .....	293	147	-347	-642	672	464
 Funds used for all other purposes (net).....	734	663	284	93	131	155

(1) Includes \$135 million (the equivalent of U.S. \$125 million) of securities payable in United States currency.

(2) To obtain the change in the total amount of Government securities outstanding during 1962 it is necessary to deduct the net retirement of \$58 million of non-market bonds held by the Unemployment Insurance Fund and the cancellation of \$142 million of market bonds held in Government accounts, making a net increase of \$813 million in Government securities outstanding.

(3) Excluded from this amount are the items described in footnote (2) which involve no transfer of cash. The changes in Government account holdings may be summarized as follows:

	1961	1962
Net issue of non-market bonds to Unemployment Insurance Fund.....	157	-58
Cancellation of market bonds.....	-496	-142
Net purchases of market securities by all Government accounts.....	117	225
Total change in Government account holdings.....	-221	26

(4) Excludes advances which were offset by changes in I.M.F. holdings of demand notes in connection with Australian, U.K. and Canadian drawings.

**FINANCIAL FLOWS THROUGH THE BANKING SYSTEM AND SECURITIES MARKETS.** Tables showing the net increase in outstanding securities and bank loans and the net increase in holdings of certain financial assets appear in the Appendices on pages 84 to 87.

During the past two years of rising business activity taken together, the total amount of new funds raised by Canadian businesses, individuals and governments combined as measured by the over-all increase in outstanding securities and bank loans was \$6.3 billion, somewhat less than the \$6.6 billion raised during the 1958-59 expansion. The growth in private debt was on about the same scale as in 1958-59, and the provinces raised appreciably more new money; on the other hand, net new borrowing by the Government of Canada was substantially less than during the previous expansion, and the same was true of municipal government borrowing. (A table giving the details of new issues of securities appears in the Appendix on pages 88 and 89.)

A somewhat larger proportion of the increase in outstanding debt was absorbed by the banking system in 1961-62 than in 1958-59. Bank loans increased by over \$1.2 billion compared with \$1.0 billion in 1958-59, and the banking system added \$0.7 billion of Canadian securities to its holdings as compared with \$0.5 billion in the previous expansion.

Non-residents absorbed much less debt in the form of Canadian securities in 1961-62 than in 1958-59; their holdings of Canadian currency and bank deposits showed no significant change in either period. Financial saving in these forms by the non-bank public in Canada, however, was higher than in 1958-59 with a somewhat larger proportion of the total taking the form of increased holdings of currency and bank deposits.

**NET INCREASE IN HOLDINGS OF CERTAIN FINANCIAL ASSETS**

(billions of dollars)

	<u>1958-59</u>	<u>1961-62</u>
<b>Non-Bank Public in Canada</b>		
Currency and bank deposits.....	1.3	1.7
Canadian securities.....	3.7	3.8
<b>Total.....</b>	<b>5.0</b>	<b>5.5</b>
<b>Non-Residents</b>		
Currency and bank deposits.....	—	—
Canadian securities.....	1.4	0.6
<b>Total.....</b>	<b>1.4</b>	<b>0.6</b>

The pattern of financial flows during the current business expansion was temporarily but sharply distorted by the foreign exchange developments which occurred during the course of 1962. Had it not been for the sales of official exchange reserves the Government of Canada's Canadian dollar requirements would have involved substantial net borrowing or use of cash balances in the first half of 1962; as it turned out, however, the Government was able to finance its current operations, reduce significantly the amount of its outstanding debt held by the public and the banking system, and also add appreciably to its Canadian dollar cash balances out of the proceeds of exchange sales. The normal pattern of financial saving by the non-bank public in Canada during this period was correspondingly distorted: the public's financing of purchases of foreign exchange from the Government was reflected in a sharply reduced rate of absorption of Canadian securities (indeed non-bank holdings of Government securities declined during the first half of 1962), as well as in rather heavier borrowing from the banks than might otherwise have occurred.

In the second half of 1962 the situation was reversed. The need to finance large additions to the foreign exchange reserves was accommodated initially by the running-down of the Government's unusually large cash balances, and subsequently was reflected in the rapid growth in Government debt outstanding. The non-bank public in Canada, on the other hand, came into possession of Canadian dollars as a result of its heavy sales of foreign exchange to the Government; these were used in part to increase its holdings of Government and other securities on a quite exceptional scale, while at the same time the growth in its loans from banks declined markedly. The increase in non-bank holdings of Government securities during the second half of 1962 (mainly by residents) was \$1,250 million, or 11 per cent, of which market issues accounted for \$620 million and Canada Savings Bonds \$630 million.



1. Excludes securities involved in special currency arrangements between the Bank of Canada and other central banks.

## **Annex**

### **Introductory Remarks by the Governor of the Bank of Canada before the Royal Commission on Banking and Finance January 9, 1963**

I sent to the Commission under cover of a letter dated May 31, 1962 five submissions of the Bank of Canada to the Commission as follows:

Submission I	The Constitution and Functions of the Bank of Canada
Submission II	The Role of Monetary Policy
Submission III	The Techniques of Monetary Policy
Submission IV	The Role of the Bank of Canada in Debt Management
Submission V	The Role of the Bank of Canada in Foreign Exchange

These five papers constitute our complete offering of written material to the Commission and we have no additional formal submissions to make at this time. We shall of course be pleased to provide additional material if in the course of the present proceedings it should seem to the Commission that it would be useful for us to do so.

I take it that you will not wish me to read the Bank of Canada submissions that you have before you. If this is so I would like, with your permission, to review rather briefly some of what I regard as the highlights of our submissions. I shall not touch on all of the aspects of our material that I regard as important, but there are a few matters on which I would like to try to extend the discussion a bit further than we did in our formal submissions.

**1. THE RELATIONSHIP BETWEEN THE BANK OF CANADA AND THE GOVERNMENT.** Our first submission deals with the constitution and functions of the Bank and is, for the greater part, an attempt to summarize the main provisions of the statute under which we operate. I imagine that the Commission will wish to question me about various aspects of this subject, and at the present time there is only one point on which I wish to comment. This is on the matter of the relationship between the Bank of Canada and the Government.

I have little to add in principle to what I said on this subject in the statement which I issued on August 1, 1961, shortly after I became Governor of the Bank. This statement appears as an appendix to our Submission II: The Role of Monetary Policy. The substance of the view that I then stated and that I continue to

hold is contained in one sentence as follows: "I do not suggest a precise formula [i.e. a formula governing the responsibilities of the Bank and the Government in relation to monetary policy] but have in mind two main principles to be established: (1) in the ordinary course of events, the Bank has the responsibility for monetary policy, and (2) if the Government disapproves of the monetary policy being carried out by the Bank it has the right and the responsibility to direct the Bank as to the policy which the Bank is to carry out."

This view might be described as the principle of joint or dual responsibility, and it seems to me now to be firmly established doctrine in Canada. Certainly during my tenure of office as Governor of the Bank of Canada the relationship between the Bank and the Government has been completely in accord with the two principles involved. During my experience as Governor the monetary policy of the Bank of Canada has at all times been that which the Bank judged to be the appropriate policy in the circumstances, and the Bank accepts full responsibility for its policy. At the same time the Government has been fully and continuously informed of the policy being followed from time to time by the Bank, and the Government has at no time dissociated itself from the policy nor disclaimed responsibility. In my judgment the principle of joint responsibility for monetary policy is now well understood and widely approved in Canada, and is working well at the present time.

I take it that one of the tasks before the Commission is that of expressing a view on the Bank of Canada-Government relationship, and it is for this reason that I have thought that I should inform the Commission of my experience as Governor as well as of the opinions I expressed in August 1961. I am pleased that the Commission is giving consideration to this matter, and that it will be bringing its independent judgment to bear on the question of whether the Bank of Canada Act is adequate in this respect or whether it is desirable to establish by legislative amendment a procedure by which the Government can formally assume direct responsibility for monetary policy in addition to the ultimate responsibility which lies with it in any event. If the Commission should decide in favour of recommending a provision in the Act which would explicitly authorize the Government to issue a directive on monetary policy to the Bank, it seems to me important that the provision recommended should be phrased in such a way as to ensure that any directive issued under it would be quite formal in character, that is to say, that it would be in writing and would refer to the authority under which it was issued, that it would be specific in its terms, and that it would be published within a relatively short period.

Whether or not the Act is amended along these or other lines it is of course essential, as I said in my statement of August 1, 1961, that there should be a

consistent meshing together of all aspects of public financial and economic policy and in particular that monetary policy, fiscal policy and debt management policy should be carefully co-ordinated and purposefully directed towards attaining the over-all economic objectives of the community.

**2. THE OBJECTIVES OF MONETARY POLICY.** This brings me to the second main point on which I wish to comment, namely the objectives of monetary policy. Our submission of May 31, 1962 states (Submission II, paragraph 1) that the broad objectives of monetary policy are those of public economic policy generally, that in Canada these are rightly set high, and that they may be said to include: sustained economic growth at high levels of employment and efficiency, internal price stability and the maintenance of a sound external financial position, an equitable sharing of economic benefits and burdens and the maintenance of a high degree of economic freedom. Further on (Submission II, paragraph 60), we say that while central banks feel a particular obligation for seeing that adequate emphasis is at all times placed on price stability in the consideration of public policies, there does not appear to be any basic incompatibility between price stability and the other objectives of monetary policy.

There are a number of comments I should like to make by way of elaboration and clarification of these views. In the first place, I want to make it clear that this list of objectives is intended as a factual statement of the economic objectives which the community wants and regards as important—not as a statement of objectives which the central bank thinks the community ought to want. It is not easy to formulate a precise statement of what the community would regard as satisfactory performance of the economy and there are no doubt many ways in which our statement could be improved. However, it does serve to indicate our view that the community judges the quality of economic performance by a set of varied, complex and exacting standards rather than by any one simple test.

One sometimes hears people say that they think there is a conflict between price stability and the other objectives of economic policy. Much depends here on what is meant by this use of the word "conflict". It is certainly the case that what one might describe as conflicting considerations enter into virtually every decision on economic policy, but if the statement is intended to mean that our economic system is such that it is clearly impossible to achieve price stability along with the other objectives that we seek, then I would not agree. Nor do I see any reason for believing that policies involving a persistent rise in prices at an appreciable rate would make it any easier to achieve high employment and sustained growth over the longer run, to achieve continuing improvement in the basic

efficiency and productivity of the economy, to achieve a balanced international position, or to satisfy the community's notions of equity in the distribution of income. In fact, the contrary is more likely to be true. The more the community anticipated and took steps to protect itself against the persistent inflation generated by such policies, the less reason would there be to expect even short-run stimulus from it; and if the outcome was a persistent inflation of our cost-price structure in relation to that of our important trading partners, I do not see how the economy could continue on this course without chronic resort to exchange rate depreciation which would be in my view quite unacceptable both domestically and to other countries.

For my part, I am convinced that, in its pursuit of good economic performance, public economic policy will be more successful over time if it pays regard to the advantages of stability in the value of money as a means of achieving such performance. What this means in practical terms will vary from time to time. Economic policy should try to avoid overloading the economy because an overloaded price economy has little alternative but to find relief through price increases and excessive imports which would lead to exchange difficulties; on the other hand, it should avoid underloading the economy as a substitute for other steps which could help in achieving price stability. Economic management is rarely confronted in normal peacetime circumstances with the necessity of combatting both substantial under-employment and substantial upward pressure on the price level at one and the same time. But if we in Canada should find that our economy tends to develop upward price pressures as it moves towards the levels of economic activity and rates of growth we think it is reasonable to attempt to achieve and maintain, then the constructive reaction of public policy would not be to abandon the objective of price stability or the objective of continued expansion but rather to enquire into the market imperfections that are causing the undesirable price performance. An appropriate concern for price stability should help to give this constructive orientation to public policy. I do not think that public policy can be satisfied to aim at anything less than achieving price stability at high levels of economic activity. I see no inherent conflict between these objectives and I do not regard concern with preserving the value of money as a limitation on the use of monetary policy in pursuit of the community's economic objectives.

Accordingly, when we in the Bank of Canada say that we feel a particular obligation for seeing that adequate emphasis is placed on price stability in the formulation of economic policy, this does not mean that we regard other economic objectives of the community, such as high employment or sustained growth, as

being of any lesser importance, or that we believe that the toleration of unsatisfactory levels of employment or rates of growth is a constructive or acceptable way for public policy to approach the problem of maintaining price stability. It means that we think that it is desirable to bear in mind at all times not only that price stability is in itself one of the objectives of public policy but also that concern for price stability is a helpful means towards the achievement of the other objectives.

**3. THE NATURE AND IMPORTANCE OF MONETARY POLICY.** The only other comments I wish to make on our Submission on The Role of Monetary Policy relate to the way in which the influence of the central bank is felt and the degree of importance that it is reasonable to attach to monetary policy in attaining the community's economic objectives. Very briefly, our view on the first point is that the central bank can have an influence on credit conditions, and that changes in credit conditions in turn have an influence on the demand for goods and services and on the flow of capital into and out of Canada. The way in which operations of the central bank have an effect on credit conditions is outlined in detail in our submission. The central bank controls the cash reserves of the banking system and this enables it to determine the general trend of total chartered bank assets and the "money supply" (currency outside banks and chartered bank deposits). Changes in the assets of the chartered banks and in the money supply can have an important influence on credit conditions generally though they are by no means the only factors at work. The trend of chartered bank assets and the money supply is of major concern to the Bank of Canada not as an end in itself but rather as a means through which it can influence credit conditions.

We explain the connection between credit conditions and the demand for goods and services in the following way: (Submission II, paragraph 12) . . . "Every spender must continually weigh the attractions and advantages of an increase in spending against the risks, difficulties and disadvantages involved in financing it, given the circumstances prevailing at the time. The extent to which spenders are willing and able to go on stepping up their rate of spending relative to their incomes, i.e. in pressing their demands for goods and services at the expense of their financial positions, will clearly be influenced to some degree by the conditions, both current and prospective, which confront them in financial markets. Relevant considerations include the current and prospective availability and cost of credit, the current and prospective interest or dividend return available on financial assets of various kinds, the current and prospective prices

at which securities can be bought or sold and the associated risk of capital loss or chance of capital gain. Other things being equal, the more difficult, expensive or risky it becomes to borrow (and the more attractive it becomes to acquire or hold financial assets) the greater will be the restraining influence of credit conditions on the demand for goods and services. On the other hand the easier, cheaper or less risky it becomes to borrow (and the less attractive it becomes to acquire or hold financial assets) the more stimulating will be the influence of credit conditions on the demand for goods and services." . . . Our submission goes on to explain that the tightening or easing of credit conditions is likely to be reflected in the availability of credit as well as in the effect on yields obtainable on financial assets, and at times the availability effects can be quite important.

I am aware that there are others who describe the mechanism through which central bank operations have an influence on the demand for goods and services in a somewhat different way, and I would not wish to claim that ours is the only way to view the process. However, I do not think that there is anything irreconcilable between our way of looking at the mechanism and that which others may prefer.

I come now to the question: how important is monetary policy?

I think there can be no doubt that used in an extreme fashion monetary policy could produce dramatic results. There is after all virtually no limit in theory to the extent to which interest rates could be allowed to rise or be driven up through monetary contraction. On the other side, in theory there is virtually no limit to the extent to which the money supply could be increased. There are, however, important practical considerations which place real limitations on the range within which it is sensible to use monetary policy. These considerations are discussed in some detail in Section E of Submission II and I do not propose to repeat them here. What I have to say today about the importance of monetary policy assumes that we are talking about the use of the instrument within some range set by these considerations. Indeed, I believe one of the most important contributions that monetary policy can make is to help keep credit conditions within reasonable limits so that the economy will suffer from neither the periodic credit crises of earlier times on the one hand, nor from the disruptive effects of fears of inflation or of foreign exchange difficulties on the other.

The contribution that monetary policy is making towards attaining the community's economic objectives cannot be judged in isolation, since it is only one part of a whole mix of public policies in any given circumstances. With proper co-ordination, it can make an important contribution to the success of other public economic policies. For example, if an expansionary fiscal policy is

appropriate in the economic circumstances, including the external financial position, then monetary policy co-ordinated with debt management policy may be able to prevent the increased borrowing requirements of the Government from producing inappropriate credit conditions. On the other hand, if the economic circumstances are such that budgetary surpluses are indicated in order to exercise a restraining influence on the demand for goods and services, monetary policy in conjunction with debt management policy can be helpful in ensuring that these do not produce inappropriate credit conditions.

There can be no doubt that monetary policy has an important effect on the flow of funds through financial markets, including the flow of funds between foreign and domestic financial markets. International flows of funds can often be appreciably affected by relatively small changes in interest rates, and this in itself is a sufficient reason for a good deal of importance to be attached to monetary policy. Monetary policy can at times play a crucial role in the maintenance of a sound external position.

In our submission (Submission II, paragraph 5) we indicated that the central bank must over the years satisfy the need of a growing economy for a larger stock of money, and that in the course of doing so it can, over shorter periods, help to moderate undesirable swings in the level of over-all demand. A great deal of discussion of the impact of monetary policy relates to its possible effectiveness in helping to achieve short-term objectives such as the moderation of cyclical fluctuations. The empirical evidence regarding the strength of the impact of monetary policy over the short-run tends to be inconclusive and it is not surprising that this is so because of the wide range of non-monetary factors that affect spending decisions. As we state in our submission (Submission II, paragraph 20), "Business spending plans are often appreciably changed, for example, by the discovery of new production techniques, the availability of new machinery and equipment, the discovery of new natural resources, changes in the cost of materials and labour and taxation arrangements and, more generally, by changes in the levels of current or expected business profits. Similarly, consumer spending plans are frequently changed by the appearance on the market of new or different goods and services, by changes in tastes and customs, and by changes in the actual or expected levels of personal income. These various influences give rise to continuous and sometimes sharp changes in the trend of total spending."

The effects of changes in credit conditions during the business cycle on the trend of spending (involving as they do not only changes in the cost and availability of new borrowing but also changes in the prices of existing financial

assets) are, of course, extremely difficult to assess. When credit conditions are changing it is almost invariably the case that some of the other things which have an influence on spending decisions are also changing, and it is difficult to isolate the effects on spending decisions of changes in credit conditions alone. I do not say this to suggest that the effects on spending decisions of changes in credit conditions within the range that it is feasible to contemplate within the course of the business cycle are dramatic; on the contrary I believe that their magnitude is generally over-estimated rather than under-estimated.

The lag between the time when credit conditions change and the time when the full impact is felt on the level of domestic spending adds to the problems of trying to form an objective view of the importance of monetary policy in the moderation of cyclical fluctuations. I would not wish to attempt any precise estimate of the length of these time lags and it seems likely that they vary from one time to another. Here again the problem of measurement is a very difficult one. Even though the lag between the implementation of monetary policy and its effect on spending decisions may be fairly long, the length of the typical business cycle, particularly the expansionary phase, appears to me to be long enough to make it possible for monetary policy to make a worthwhile contribution to stabilization. In the case of international capital flows, monetary policy and changes in credit conditions can have a strong impact with very little lag.

I think that the main conclusion I would draw from these considerations is that monetary policy is important enough to warrant a considerable effort to try to get it right and to make as much use of it as circumstances permit. It cannot carry the whole burden of regulating the general level of spending in the economy and maintaining a satisfactory external financial position, but in combination with other public economic policies it can make an important contribution.

**4. INSTITUTIONAL AND TECHNICAL CONSIDERATIONS.** I now turn to a range of questions having to do with the institutional structure of the financial system and with the technical arrangements and regulations under which it operates, including those which constitute the apparatus of monetary control. In our third submission we dealt in some detail with "The Techniques of Monetary Policy", and before referring to two or three of the highlights of this submission I would like to make a few general observations about the kind of financial system which in my view would be likely to best serve the community in the pursuit of its economic objectives.

In the first place, I think that this is a field in which there are great advantages to be gained by preserving and strengthening the best features of the price system. If the community is to place major reliance on market mechanisms to produce the results it desires, however, it is essential to have good markets—and there is no automatic mechanism which ensures that all markets are good markets. Markets for credit are no exception. I am not at all sure that I could offer anything like a completely adequate description of what I mean by good credit markets if I were pressed, but some of the more obvious and important characteristics come readily to mind.

First, I would stress the importance of plenty of effective competition. Financial markets and institutions provide channels through which the needs of those with funds to lend or invest can be matched against the needs of those whose spending plans require outside finance for their execution. A good financial system should provide a wide range of choice among alternative channels of credit both for borrowers and lenders, which would imply effective competition between various kinds of financial intermediaries, numerous competing instruments available, and broad financial markets linking the system together as an organic whole. It is important that new entrants into the credit business as well as innovations in financial techniques should get a fair chance to prove themselves in competition with existing firms and techniques. It is also important that the terms and conditions of credit contracts should be freely determined under competitive conditions in impersonal markets and should respond flexibly to changes in the pressure of supply or demand for credit.

Other desirable characteristics of a good financial system, it seems to me, include adequate specialization and diversity. Within limits, I think it is desirable that financial institutions should specialize in particular fields of credit and develop their own individual expertise in catering to the particular requirements even of small groups of borrowers and savers whose needs differ to some extent from those of the great majority.

Finally, I would stress that markets for credit can work well only if they are permitted to do so by the customary practices, rules and regulations which govern financial behaviour. An unduly rigid system cannot respond flexibly to shifting market forces, adapt to changing circumstances, or develop new ways of meeting new needs.

No doubt there is a good deal more of a general nature that could be said about the desirable characteristics of a good financial system, but perhaps I have said enough already to indicate the broad lines of my approach to questions of this sort. When one leaves generalities behind and begins to examine in detail

the institutional structure and governing arrangements of our own financial system it is not at all easy to be sure what is and what is not both in accordance with the general interest and fair and equitable to all the particular interests directly involved. To make such assessments is one of the main tasks of the Commission and I do not intend to usurp your functions. In what follows, I propose to confine my attention to certain aspects of the institutional arrangements and regulations which constitute the existing apparatus of monetary control in this country with which the central bank is more directly concerned.

The essential features of this apparatus are described in our formal submissions to this Commission—a fractional reserve banking system consisting of the Bank of Canada and the chartered banks, the latter being required by law to maintain average minimum cash reserves in the form of Bank of Canada notes and deposits equivalent to 8 per cent of their Canadian deposit liabilities. By agreement they also maintain average minimum liquid asset holdings (including cash reserves) equivalent to 15 per cent of their deposits. Through its open market transactions in Government securities and various other operations, the Bank of Canada exercises direct control over the total amount of cash reserves available to the chartered banks as a group, and thus over the broad trend of their total deposit liabilities. Subject to the observance of the agreed minimum cash reserve and liquid asset ratios, the chartered banks themselves determine the allocation of their funds among loans and investments.

In our submissions of last May we expressed certain tentative views concerning these arrangements. I do not propose to quote what was said in detail, but perhaps a brief summing-up of our general position regarding the adequacy of our technical powers vis-a-vis the chartered banks would be helpful. I would say that the Bank of Canada's existing powers in this respect are broadly speaking satisfactory for most purposes and most situations. The Bank has open to it an adequate range of techniques for varying the total amount of cash reserves available to the chartered banks and this power, in conjunction with the minimum cash reserve requirements, enables it to influence the over-all rate of growth of the chartered banking system over time. I might interject here that under the existing formula for calculating the minimum cash reserve requirements the central bank is involved in rather more guesswork in its day-to-day cash management than it would like, and that we have been thinking about various possible changes in the formula which might improve the short-run predictability of chartered bank response without imposing an unduly rigid system. Perhaps I shall have a bit more to say about this particular problem later in these proceedings; at this stage I merely wish to note its existence as one of the minor difficulties

that the central bank has encountered in operating under the existing cash reserve arrangements.

In the normal course of events the Bank of Canada's cash management operations have their direct and immediate impact on chartered bank holdings of liquid assets and Government bonds rather than on the trend of chartered bank loans. Chartered bank lending policies appear to be rather insensitive to cash management except when the banks regard their holdings of liquid assets and Government bonds as being close to minimum levels. The agreement by the banks to observe a minimum liquid asset ratio can, in the view of the central bank, play a limited but nevertheless useful role in increasing the responsiveness of the chartered banks' lending policies to cash management. Use of the statutory power of the Bank of Canada to vary the cash reserve requirements applicable to the chartered banks would enable it to exert a more direct and immediate influence over chartered bank lending policies in exceptional situations where this seems to be urgently desirable. It might be desirable for the central bank to be able to achieve a similar result through methods which had a smaller impact on bank earnings, such as by varying the level of the minimum liquid asset ratio. Here too the Commission may wish to have some further elaboration of our ideas at a later stage in the proceedings.

The rapid growth during recent years of various types of financial institutions which compete directly with the chartered banks in various aspects of their lending and deposit business raises a number of important questions, including one on which I would now like to comment. This question is whether the operations of these institutions which are not subject to stipulated cash reserve or liquid asset requirements have constituted in practice a serious impediment to the effectiveness of a policy of monetary restraint in Canada on the occasions when this has been the aim of the central bank. My own feeling with regard to this important issue is that they have not. It is true that a contraction of the cash base of the credit system brought about by the central bank must directly or indirectly affect a significant proportion of the institutions engaged in the business of extending credit if it is to be effective. My own reading of the evidence is, however, that the effects on financial institutions and markets have been in fact quite pervasive even though membership in the reserve system has been limited to the chartered banks and even though there has been a good deal of rigidity in chartered bank lending and deposit rates. Whether the response of the banks to cash reserve stringency takes the form of disposing of Government securities (and thus driving up market interest rates) or of raising their own deposit rates, other financial institutions are put under pressure to offer competitive returns

on their own obligations if they are to avoid cash drains and retain their share of the flow of current savings; and sooner or later institutional lending rates generally must also be increased if normal operating margins are to be maintained. In general, unless financial markets are very badly compartmentalized and full of interest rate and other rigidities, pressure exerted at one point in the system is transmitted to other areas of the market through a variety of mechanisms, and results in a more or less general stiffening of interest rates and other credit terms affecting all borrowing channels.

The ability of the so-called "near-banks" to grow at the expense of the chartered banks seems to me to depend basically on the ability of the "near-banks" to offer relatively more attractive terms to those with funds to deposit or invest than are offered by the chartered banks—and this in turn depends largely on the relative rates of return which chartered banks and "near-banks" are able to earn on their loans and investments. This is mainly a matter of the particular legal provisions and customs which govern the operations of the various types of financial institution rather than of the form in which cash is deposited and held in reserve. If the chartered banks were able and willing to maintain their deposit rates at competitive levels and recoup themselves by raising their lending rates, I do not see why their membership in the fractional cash reserve system should prevent them from growing as rapidly as their competitors who are not members. The central bank aims at influencing credit conditions generally, not at restricting the rate of growth of chartered bank deposits as such to some preconceived rate.

In practice, of course, the chartered banks are restricted in the lending rates they can charge and in their participation in certain remunerative fields of lending, and this undoubtedly affects their ability to compete for funds by offering sufficiently attractive interest rates on time and notice deposits. I should imagine that this is one of the main reasons why the chartered banks have lost ground to their near-bank competitors during the past decade. On the other hand, I do not think there is much evidence that the competitive gains of the "near-banks" at the expense of the chartered banks have been unusually great during periods of monetary restraint except in certain rather special cases, such as the gains made by the instalment finance companies in the field of personal lending during the early 1950's, before the general move of the chartered banks into the field of instalment-type personal loan plans. Nor do I believe that the special requirements of the banks as members of the fractional reserve system—the need to observe the 8 per cent minimum average cash and 15 per cent minimum average liquid asset ratios—have so affected bank earnings as to seriously restrict their ability to pay competitive deposit rates.

I would like to conclude my comments on the existing apparatus and arrangements for monetary control with a word concerning the Bank Rate. At the time our submissions to this Royal Commission were prepared last May I had intended to postpone any change in the existing method of setting the Bank Rate until the matter had been fully aired in the course of your series of hearings and I had received some indication of the Commission's views. As you know, however, this plan was overtaken by events and since June 24 last we have operated under a fixed Bank Rate system, while leaving the rate to money market dealers through purchase and re-sale agreements on a floating basis related to the treasury bill tender rate as before. It is too early yet to draw any firm conclusions as to how the new Bank Rate system has worked, but perhaps I might venture a comment about its performance as a signal. The initial increase in the Bank Rate to the new fixed level of 6 per cent in June was undoubtedly seen to be a strong confirmation of a major change in monetary policy. In the case of the three subsequent reductions, however, the same cannot be said: what was underway was a more or less continuous, gradual and tentative modification in the emphasis of policy rather than any major turning-points in policy with unambiguous implications for the future.

Although it has been very short, I think that our recent experience with the Bank Rate as a signal has been significant. From time to time one hears the view expressed that every change in the Bank Rate reflects some clear change in the central bank's expectations about the future, and that the central bank announces its fresh assessment to the country by the Bank Rate change. This view that Bank Rate should be regarded as a signal seems to me to draw its nourishment from Bank Rate changes such as our move to 6 per cent in June and similar crisis-type action taken on occasion in other countries. But Bank Rate changes of this kind have been unusual, and one hopes that they will be so in future; in fact, inasmuch as one of the aims of policy can be said to avoid crises, one hopes to avoid them completely. In any event, much less dramatic changes are much more common, and these typically do not reflect any clear change in central bank expectations, but rather the more or less continuous, and usually slow, evolution of economic events.

The principal advantage of a fixed Bank Rate over a flexible Bank Rate lies in the element of stability that it can give to money market rates by tentatively placing an upper limit on their movement. This is a substantial advantage. The principal disadvantage of a fixed Bank Rate is that when it moves it moves by definite steps, and since the underlying situation does not usually move by

steps but gradually, the timing of Bank Rate changes is largely arbitrary. This arbitrariness is unavoidable under the fixed Bank Rate system but it does sometimes create difficult problems of timing for the central bank. If we develop a mystique about Bank Rate changes under which every change is supposed to be saying something about the future, we will, I think, be creating false expectations and complicating the normal use of this instrument by the central bank.

**5. MONETARY POLICY AND DEBT MANAGEMENT.** The fourth submission of the Bank of Canada to the Commission is called "The Role of the Bank of Canada in Debt Management". In the context of this submission debt management is taken to mean the management of that part of the Government's debt which takes the form of direct and guaranteed securities outstanding. Such management includes the determination of the terms of new security issues, arrangements for their marketing and servicing, and the operation of certain Government investment accounts.

There is nothing that I wish to add to this submission to-day, but I would like to take the opportunity of underlining what I think are the two most important points in it. The first is that in the field of debt management the role of the Bank of Canada is that of adviser to, and fiscal agent for, the Government. The decisions taken by the Government in this field are communicated on its behalf to the Bank of Canada by the Minister of Finance.

The second important point is that in some ways debt management is very similar to monetary management. Both can have an influence on credit conditions and both have their principal impact on the economy in that way. Debt management decisions have their influence on credit conditions by affecting the characteristics and the amounts of the various types of Government securities that are outstanding, thereby affecting the terms on which investors will hold them. Monetary policy exercises its influence on credit conditions in part by affecting the distribution of the outstanding Government securities between banks and other holders.

In these circumstances it is obvious that very close co-ordination between debt management and monetary management is desirable. I believe that a high degree of effective co-ordination is in fact being achieved, and in my experience this co-ordination is facilitated by the fact that the central bank acts as the Government's agent in debt management operations.

**6. MONETARY POLICY AND THE FOREIGN EXCHANGE RATE.** I would like to make a few comments now on the subject-matter of our final submission which deals with the role of the Bank of Canada in foreign exchange matters. As we point out in that submission foreign exchange policy in Canada is determined by the Government and not the central bank, but there is a close inter-connection between monetary policy and foreign exchange policy.

Since May 2, 1962, we have had a fixed foreign exchange rate in Canada, with a par value (92.5 cents U.S.) established with the International Monetary Fund and with the Government fulfilling the normal undertaking of Fund members to keep the rate of exchange between the Canadian dollar and other currencies within 1 per cent on either side of the declared par value. The undertaking of Fund members to achieve this degree of exchange stability reflects the view underlying the exchange rate system of the International Monetary Fund, namely, that exchange rate stability is in the best interests of the individual countries which make up the international trading community. The Fund system does not, of course, require its members to cling to foreign exchange rates for their currencies that are inappropriate, and it provides facilities which give to each member the means of changing its declared par value to correct a fundamental disequilibrium in its position in a way which gains international acceptability and which is thereby most likely to be effective. The Fund system also makes provision for financial assistance to enable members to cope with short-term disequilibria in their balance of payments.

The means most immediately available to the Government to keep the foreign exchange rate within 1 per cent of the declared par value is direct intervention in the foreign exchange market to buy or to sell foreign exchange in the amounts necessary, and this it does, using the Bank of Canada as its agent for the purpose. But since there is obviously some limit to the volume of direct Government intervention that is feasible, the successful operation of this exchange rate system requires that the underlying factors which influence the demand for and supply of foreign exchange should throw up something sufficiently close to demand-supply balance in the market to allow direct Government intervention to remain within the scale that is feasible. Since these underlying factors are themselves affected by the character and mix of public economic policies, the real means available to achieve over time the Government's declared exchange rate intentions is to achieve a combination of public economic policies which supports the Government's exchange rate policy.

Having recognized that it is fundamental to the success of public foreign exchange policy and to its contribution to the achievement of the community's economic goals that it be adequately supported by an appropriate combination of

other public policies, I would like now to return to the part that we must expect to be played by fluctuations in our foreign exchange reserves if the fixed exchange rate system that we now have is to work well. These fluctuations are the shock-absorbers in the system, accommodating the short-run oscillations and disturbances in the flow of the country's foreign exchange receipts and payments and permitting a smoother adaptation of public policies to the needs of the external economic position. With a structure of international transactions as large as ours, and containing as many potentially volatile elements, it must be expected that from time to time the changes in the level of our reserves will be very large, and we must therefore be prepared to accommodate them. Among the ways in which we must be prepared, I think particularly of three. First, we must have reserves large enough to absorb large losses. It is of course true, as we have seen, that in periods of crisis Canada can have ready access to massive international financial assistance, but I take it that we would want to be in a position to accommodate substantial fluctuations in the flow of our international receipts and payments without such assistance. Second, we must be prepared to deal with the Canadian dollar financing of large increases in our reserves. While this may raise some problems, I see no reason to suppose that they would be unmanageable. Third, and most important, Canadian public opinion must prepare itself to accept large fluctuations in our reserves. This will take some doing because we have no recent experience with a fixed rate system, and we had grown used to seeing very little movement in our foreign exchange reserves for years at a time under the fluctuating rate system. It will militate against the smooth operation of the fixed rate system if, instead of focussing on the underlying position of the country's balance of payments, public attention should be preoccupied to an exaggerated degree with short-term changes in reserves which, though large, may be well within the country's capacity to handle.

Perhaps one could say by way of summary that the satisfactory operation of any exchange rate system in Canada requires the support of an appropriate combination of public policies, and that there are in practice two additional requirements for the satisfactory operation of the fixed exchange rate system—that the rate should be fixed within the range which is appropriate to the longer-run needs of the economy, and that there should be effective freedom to absorb large short-run fluctuations in the flow of foreign exchange receipts and expenditures through movements in the exchange reserves. While both of these requirements are essential, they should not be impossibly difficult to satisfy and if they are satisfied they will leave adequate scope for the constructive use of monetary policy within the framework of public economic policy.

APPENDIX

**CHARTERED BANK ASSETS**

(monthly average of Wednesdays — millions of dollars)

	Dec. 1962	Increase or decrease (—) from:					
		Dec./61 to Mar./62	Mar./62 to June/62	June/62 to Sept./62	Sept./62 to Dec./62	Year 1962	Year 1961
Bank of Canada notes and deposits.....	1,150	—4	70	—49	25	43	72
Day-to-day loans.....	204	—72	—64	37	85	—14	99
Treasury bills.....	1,165	10	—168	—69	198	—30	239
Government bonds.....	2,157	106	—124	—668	227	—459	520
Net foreign assets.....	—85	—29	12	—131	95	—54	—119
Call loans.....	142	—32	13	6	33	20	—6
Sub-total: "more liquid" assets	4,734	—21	—261	—875	662	—495	805
Loans to provinces.....	43	—27	—	15	7	—5	—81
Loans to municipalities.....	248	76	—24	18	—60	10	29
Loans to grain dealers.....	318	—35	73	—8	—47	—17	—106
Canada Savings Bonds loans....	209	—59	—58	—50	183	16	—1
Loans to instalment finance companies.....	264	—22	28	7	5	17	—96
General loans.....	6,477	200	555	330	—263	821	591
(Sub-total: loans).....	(7,558)	(132)	(573)	(313)	(—176)	(842)	(337)
Insured mortgages.....	906	—11	—15	—8	—10	—43	—20
Non-government securities.....	1,105	—12	104	—38	—2	52	45
Sub-total: less liquid assets...	9,569	110	661	267	—188	851	361
Total assets.....	14,303	89	401	—608	474	356	1,167

**SEASONALLY ADJUSTED**

Total loans (excluding call loans and Canada Savings Bonds loans)	7,365	294	493	315	—274
General loans.....	6,516	322	316	287	—99
Business loans <sup>(1)</sup> .....	4,167	191	237	205	—98

(1) Based on month-end figures.

APPENDIX

**CURRENCY OUTSIDE BANKS AND CHARTERED BANK DEPOSITS**

(monthly average of Wednesdays — millions of dollars)

	Dec. 1962	Increase or decrease (—) from:						Year 1962	Year 1961
		Dec./61 to Mar./62	Mar./62 to June/62	June/62 to Sept./62	Sept./62 to Dec./62	Year 1962	Year 1961		
<b>Held by general public</b>									
Currency outside banks									
Notes.....	1,807	—64	43	41	50	70	63		
Coin.....	175	1	6	7	5	20	13		
Personal savings deposits.....	7,837	268	126	112	—214	294	398		
Corporate notice deposits.....	994	}—369	143	—104	31	}160	}673		
Other deposits <sup>(1)(2)</sup> .....	4,096		95	126	238				
	—	—	—	—	—	—	—		
Total.....	14,908	—164	413	183	110	542	1,148		
Government of Canada deposits..	573	190	34	—724	402	—97	58		
	—	—	—	—	—	—	—		
Total currency and chartered bank deposits <sup>(2)</sup> .....	15,481	27	448	—541	512	446	1,205		
	—	—	—	—	—	—	—		
<b>SEASONALLY ADJUSTED</b>									
Currency outside banks and chartered bank deposits <sup>(2)</sup>									
Total.....	15,297	267	418	—573	314				
Held by general public.....	14,908	10	270	—81	330				

(1) Includes public demand deposits, deposits of provincial governments and deposits of other banks.

(2) Less Canadian dollar items in transit.

## APPENDIX

**CURRENCY OUTSIDE BANKS AND CHARTERED BANK DEPOSITS,  
STATUTORY DEPOSITS AND CASH RESERVES**

(millions of dollars)

		<b>Currency Outside Banks and Chartered Bank Deposits</b>	
		<b>Monthly Average of Wednesdays</b>	
	<b>Total</b>	<b>Currency Outside Banks</b>	<b>Chartered Bank Deposits (excluding float)</b>
<b>Annual Averages</b>			
1959.....	13,209	1,730	11,480
1960.....	13,293	1,762	11,531
1961.....	14,169	1,815	12,354
1962.....	15,206	1,897	13,310
<b>Monthly</b>			
1961—Jan.....	13,722	1,756	11,966
Feb.....	13,722	1,751	11,971
Mar.....	13,827	1,774	12,053
Apr.....	13,797	1,775	12,022
May.....	13,833	1,794	12,039
June.....	13,938	1,790	12,149
July.....	14,104	1,838	12,266
Aug.....	14,404	1,849	12,555
Sept.....	14,432	1,840	12,592
Oct.....	14,488	1,850	12,638
Nov.....	14,702	1,866	12,836
Dec.....	15,035	1,892	13,143
1962—Jan.....	14,973	1,835	13,138
Feb.....	14,907	1,825	13,082
Mar.....	15,062	1,829	13,232
Apr.....	15,229	1,860	13,369
May.....	15,499	1,883	13,616
June.....	15,509	1,878	13,631
July.....	15,397	1,928	13,469
Aug.....	15,076	1,938	13,138
Sept.....	14,968	1,926	13,042
Oct.....	15,128	1,943	13,185
Nov.....	15,286	1,931	13,354
Dec.....	15,481	1,981	13,499

(1) Statutory basis, i.e., the average Canadian dollar deposit liabilities for each month are based on the four consecutive Wednesdays ending with the second last Wednesday of the previous month.

(2) 8 per cent of gross statutory deposits as shown in preceding column.

(3) For each month the cash reserves are equal to the monthly average of the daily figures for chartered bank deposits at the Bank of Canada and the average of chartered bank holdings of Bank of Canada notes for the four consecutive Wednesdays ending with the second last Wednesday of the previous month.

**Statutory Deposits<sup>(1)</sup>****Average of Statutory Wednesdays**

<b>Chartered Bank Deposits (excluding float)</b>	<b>Float</b>	<b>Total Statutory Deposits</b>	<b>Minimum Cash Reserve Requirement<sup>(2)</sup></b>	<b>Actual Cash Reserves<sup>(3)</sup></b>	<b>Average Cash Reserve Ratio %</b>
11,486	701	12,187	975	999	8.20
11,465	587	12,052	964	985	8.17
12,249	555	12,804	1,024	1,040	8.12
13,277	534	13,812	1,105	1,124	8.14
12,001	611	12,612	1,009	1,029	8.16
11,985	571	12,556	1,004	1,019	8.11
11,961	484	12,445	996	1,009	8.11
12,052	496	12,548	1,004	1,017	8.10
12,035	526	12,560	1,005	1,018	8.11
12,054	569	12,623	1,010	1,026	8.13
12,094	585	12,679	1,014	1,029	8.12
12,234	556	12,790	1,023	1,040	8.13
12,555	567	13,122	1,050	1,064	8.11
12,569	559	13,128	1,050	1,072	8.17
12,648	578	13,226	1,058	1,076	8.13
12,796	560	13,356	1,068	1,082	8.10
13,095	598	13,693	1,095	1,115	8.14
13,158	538	13,696	1,096	1,109	8.09
13,064	520	13,584	1,087	1,101	8.10
13,203	536	13,739	1,099	1,114	8.11
13,324	443	13,767	1,101	1,115	8.10
13,628	616	14,244	1,140	1,166	8.19
13,628	508	14,135	1,131	1,159	8.20
13,546	618	14,164	1,133	1,151	8.13
13,147	535	13,682	1,095	1,113	8.14
13,056	468	13,524	1,082	1,106	8.18
13,162	515	13,678	1,094	1,113	8.14
13,315	519	13,834	1,107	1,130	8.17

**CHARTERED BANKS**  
**CLASSIFICATION OF GENERAL LOANS**

(millions of dollars)

	<u>As at Dec. 31 1962</u>	<u>Increase or decrease (-) during year:</u>				
		<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	
<b>Business loans</b>						
Under authorizations of:						
less than \$100,000.....	1,326	67	85	135	127	
\$100,000 to \$1 million.....	1,292	133	51	127	179	
\$1 million to \$5 million.....	848	114	39	49	111	
\$5 million and over.....	573	38	-39	-7	98	
Total business loans.....	4,038	351	136	303	515	
<b>Personal loans</b>						
Fully secured by marketable bonds and stocks.....						
bonds and stocks.....	372	-5	4	49	36	
Home improvement loans.....	70	2	-4	10	4	
Other.....	1,183	165	138	173	153	
Total personal loans.....	1,624	163	138	232	193	
Loans to farmers.....	556	22	30	65	71	
Loans to non-business institutions.....	227	28	26	14	18	
Total general loans.....	6,445	564	331	615	798	

**SUMMARY OF NEW ISSUES AND RETIREMENTS OF GOVERNMENT  
OF CANADA DIRECT MARKET BONDS, 1962<sup>(1)(2)</sup>**

(par values, millions of dollars)

Date of Issue or Retirement	Date of Offering of New Issues	New Issues			At Maturity	Retirements <sup>(3)</sup>	
		Advance Allotment to Bank of Canada	Public Offering	Total		Refunding of Bank of Canada Holdings in Advance of Maturity	Total
Jan. 15	Jan. 2	100	150	250	-	100	100
Feb. 1		-	-	-	53	-	53
Mar. 1	Feb. 12	-	150	150	-	-	-
May 1	Apr. 12	125	75	200	100	100	200
June 15		-	-	-	140	-	140
Aug. 1	July 16	50	150	200	285	-	285 <sup>(4)</sup>
Oct. 1	Sept. 10	30	120	150	68	-	68
15	Sept.	-	135	135 <sup>(5)</sup>	-	-	-
Dec. 1		-	-	-	140	-	140 <sup>(6)</sup>
15	Dec. 3	200	300	500	375	-	375
Various					3	-	3
<b>Total</b>		<b>505</b>	<b>1,080</b>	<b>1,585</b>	<b>1,164</b>	<b>200</b>	<b>1,364</b>
		<b>=====</b>	<b>=====</b>	<b>=====</b>	<b>=====</b>	<b>=====</b>	<b>=====</b>

(1) Excludes guaranteed bonds of which \$40 million were retired in 1962. Also excludes an increase of \$10 million in Government securities arising out of revaluation of foreign-pay bonds outstanding; this amount has been deducted from retirements as shown in the table on page 57.

(2) Excludes the exchange of \$256 million of 5½% bonds due October 1, 1962 into 5½% bonds due October 1, 1975 and the exchange of \$435 million of 5½% bonds due April 1, 1963 into 5½% bonds due April 1, 1976.

(3) In addition to the retirements shown, a total of \$142 million of Government securities held in Government accounts were cancelled on March 31.

(4) Partially refunded by \$85 million of treasury bills.

(5) Canadian dollar equivalent of U.S. \$125 million issue privately placed in New York.

(6) Partially refunded by \$100 million of treasury bills sold to the Bank of Canada.

**GOVERNMENT OF CANADA DIRECT AND GUARANTEED SECURITIES  
DISTRIBUTION OF HOLDINGS**

(par values, millions of dollars)

	As at Dec. 31 1962	Increase or decrease (—) during:					
		1962				Year 1962	Year 1961
		1Q	2Q	3Q	4Q		
<b>Held Outside Government Accounts</b>							
Bank of Canada*							
Treasury bills.....	458	—80	—54	223	55	145	—93
Other market issues.....	2,478	17	168	—243	—27	—85	226
Total.....	2,936	—64	115	—19	28	60	132
Chartered Banks							
Treasury bills.....	1,137	8	—151	11	107	—25	188
Other market issues.....	2,234	71	—248	—560	341	—397	547
Total.....	3,371	79	—399	—550	448	—422	735
General Public*							
Treasury bills.....	523	15	85	86	—68	118	—144
Other market issues.....	7,329	63	—175	708	—106	491	—99
Canada Savings Bonds.....	4,620	—21	—70	—137	769	540	486
Total.....	12,472	57	—160	656	595	1,149	243
Total							
Treasury bills.....	2,118	—57	—119	320	94	238	—49
Other market issues.....	12,040	151	—254	—95	208	9	674
Canada Savings Bonds.....	4,620	—21	—70	—137	769	540	486
Total.....	18,778	72	—444	88	1,070	787	1,110
<b>Held in Government Accounts</b>							
Unemployment Insurance Fund							
Treasury bills.....	—	—	—	—	—	—	—52
Other market issues.....	—	—	—	—	—	—	—264
Non-market issues.....	100	—95	—35	50	22	—58	157
Total.....	100	—95	—35	50	22	—58	—159
Securities Investment Account							
Treasury bills.....	25	50	124	—174	25	25	—
Other market issues.....	—	—38	2	—5	—	—41	—62
Total.....	25	12	126	—179	25	—16	—62
Purchase Fund							
Market issues.....	113	—38	106	7	—	75	38
Total.....	113	—38	106	7	—	75	38
Other Government Accounts							
Treasury bills.....	22	7	—5	—1	16	18	1
Other market issues.....	411	5	10	4	—12	7	—39
Total.....	433	12	5	2	4	24	—38
Total							
Treasury bills.....	47	57	119	—175	41	42	—51
Other market issues.....	524	—71	118	6	—12	41	—327
Non-market issues.....	100	—95	—35	50	22	—58	157
Total.....	670	—108	202	—120	51	26	—221
<b>Total Outstanding</b>							
Treasury bills.....	2,165	—	—	145	135	280	—100
Other market issues.....	12,564	80	—136	—89	196	50	346
Canada Savings Bonds.....	4,620	—21	—70	—137	769	540	486
Other non-market issues.....	100	—95	—35	50	22	—58	157
Total.....	19,448	—36	—241	—32	1,121	813	889

\*Excludes changes in holdings associated with special currency arrangements with foreign central banks.

**GOVERNMENT OF CANADA DIRECT AND GUARANTEED SECURITIES  
CLASSIFIED BY TERM TO MATURITY**

(par values, millions of dollars)

	As at Dec. 31 1962	Increase or decrease (—) during:					
		1962				Year 1962	Year 1961
		1Q	2Q	3Q	4Q		
<b>Total Amount Outstanding</b>							
Treasury bills.....	2,165	—	—	145	135	280	—100
Other market issues							
2 years and under.....	2,545	66	—88	—290	—328	—639	934
Over 2 years and up to 5 years	2,443	50	—187	—	—189	—327	—36
Over 5 years and up to 10 years	2,472	50	—73	1,367	150	1,494	—182
Over 10 years.....	5,103	—87	212	—1,167	563	—479	—369
Total market issues		—	—	—	—	—	—
(bonds and treasury bills).....	14,729	80	—136	56	331	330	246
Canada Savings Bonds.....	4,620	—21	—70	—137	769	540	486
Other non-market issues.....	100	—95	—35	50	22	—58	157
Total.....	19,448	—36	—241	—32	1,121	813	889
Average maturity of market issues.....	8 yrs. 5 mo.	—4 mo.	+1 mo.	—	+4 mo.	+1 mo.	—1 yr. 1 mo.
<b>Amount Held by General Public</b>							
Treasury bills.....	523	15	85	86	—68	118	—144
Other market issues							
2 years and under.....	1,295	85	67	281	—659	—226	349
Over 2 years and up to 5 years	862	16	109	128	—343	—91	—248
Over 5 years and up to 10 years	1,337	—18	—32	801	101	852	—74
Over 10 years.....	3,834	—20	60	—501	415	—46	—125
Total market issues		—	—	—	—	—	—
(bonds and treasury bills).....	7,852	78	289	794	—552	609	—242
Canada Savings Bonds.....	4,620	—21	—70	—137	769	540	486
Total.....	12,472	57	219	656	216	1,149	243
Average maturity of market issues.....	10 yrs. 9 mo.	—5 mo.	—5 mo.	—5 mo.	+1 yr. 4 mo.	—1 mo.	—8 mo.

## APPENDIX

**NET INCREASE IN OUTSTANDING SECURITIES AND BANK LOANS  
CLASSIFICATION BY BORROWER**

(millions of dollars)

	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>
<b>Government of Canada</b>				
Securities <sup>(1)</sup> .....	- 61	247	- 793	82
<b>Provincial governments</b>				
Securities.....	293	210	540	549
Bank loans.....	- 4	22	12	- 6
Sub-total.....	<u>290</u>	<u>232</u>	<u>552</u>	<u>542</u>
<b>Municipal governments</b>				
Securities.....	240	234	224	278
Bank loans.....	6	21	53	21
Sub-total.....	<u>246</u>	<u>255</u>	<u>277</u>	<u>300</u>
<b>Private Canadian borrowers</b>				
Corporate and other bonds.....	476	348	797	954
Corporate stocks <sup>(2)</sup> .....	173	431	633	467
Finance company notes.....	- 39	59	94	48
Bank loans <sup>(3)</sup> .....	129	984	641	362
Sub-total.....	<u>739</u>	<u>1,822</u>	<u>2,164</u>	<u>1,832</u>
(Sub-total: provincial, municipal and private).....	<u>(1,274)</u>	<u>(2,309)</u>	<u>(2,993)</u>	<u>(2,674)</u>
Total.....	<u>1,213</u>	<u>2,556</u>	<u>2,199</u>	<u>2,755</u>

(1) Direct and guaranteed securities held outside Government accounts.

(2) Excludes chartered bank stock issues.

(3) All other chartered bank loans in Canadian currency, including day-to-day and call loans to securities dealers and mortgage loans.

					1961		1962	
1958	1959	1960	1961	1962	I Half	II Half	I Half	II Half
1,360	1,054	669	1,110	787	148	963	-371	1,158
614	568	477	935	669	389	547	288	381
-20	-30	89	-82	-17	-95	13	-22	6
594	538	566	853	653	294	559	266	387
343	277	283	208	215	86	122	101	114
24	14	-14	30	-3	47	-17	45	-48
367	291	269	238	212	133	105	146	65
664	122	318	346	314	169	177	227	87
262	310	172	224	250	214	10	98	152
-111	135	10	-67	70	44	-111	43	27
120	902	392	422	888	-46	468	666	222
935	1,469	892	924	1,521	380	544	1,033	488
(1,896)	(2,298)	(1,727)	(2,016)	(2,386)	(807)	(1,208)	(1,446)	(940)
3,257	3,351	2,396	3,126	3,172	955	2,171	1,074	2,098

**NET INCREASE IN HOLDINGS OF CERTAIN FINANCIAL ASSETS**  
**CLASSIFICATION BY HOLDER**

(millions of dollars)

	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>
<b>Chartered banks and Bank of Canada</b>				
Canadian securities.....	468	135	-636	160
Chartered bank loans.....	131	1,027	706	378
<b>Total.....</b>	<b>599</b>	<b>1,161</b>	<b>70</b>	<b>537</b>
<b>Non-bank holders</b>				
Currency and bank deposits.....	527	1,117	-10	480
Other net liabilities of banking system <sup>(1)</sup> .....	72	44	80	57
<b>Sub-total<sup>(2)</sup>.....</b>	<b>599</b>	<b>1,161</b>	<b>70</b>	<b>537</b>
Canadian securities.....	613	1,395	2,129	2,218
<b>Total (as per table on Pages 84 and 85).....</b>	<b>1,213</b>	<b>2,556</b>	<b>2,199</b>	<b>2,755</b>
of which:				
<b>Government of Canada</b>				
Chartered bank and Bank of Canada deposits...	-292	373	-321	174
<b>Public in Canada</b>				
Government of Canada securities.....	-399	485	-139	-28
Other Canadian securities.....	827	855	1,510	1,454
<b>Sub-total: Canadian securities.....</b>	<b>428</b>	<b>1,340</b>	<b>1,371</b>	<b>1,426</b>
Currency and chartered bank deposits.....	790	683	338	322
Other net liabilities of banking system.....	72	44	80	57
<b>Total.....</b>	<b>1,290</b>	<b>2,067</b>	<b>1,789</b>	<b>1,805</b>
<b>Non-Residents</b>				
Government of Canada securities <sup>(3)</sup> .....	-111	-145	-64	-45
Other Canadian securities.....	296	200	822	837
<b>Sub-total: Canadian securities.....</b>	<b>185</b>	<b>55</b>	<b>758</b>	<b>792</b>
Canadian bank deposits.....	29	62	-26	-15
<b>Total.....</b>	<b>214</b>	<b>116</b>	<b>732</b>	<b>777</b>

(1) Balancing item.

(2) Equals total holdings of securities and loans by banking system as above.

(3) Includes treasury bills.

					1961		1962	
1958	1959	1960	1961	1962	I Half	II Half	I Half	II Half
1,305	-799	262	940	-262	291	649	-162	-100
124	886	467	370	868	-94	464	688	179
1,428	88	729	1,310	606	197	1,113	526	80
1,319	-42	711	1,257	521	48	1,209	333	188
109	130	17	53	84	149	-96	193	-109
1,428	88	729	1,310	606	197	1,113	526	80
1,828	3,264	1,668	1,816	2,567	758	1,058	548	2,018
3,257	3,351	2,396	3,126	3,172	955	2,171	1,074	2,098
-104	95	96	84	-23	-406	490	241	-264
180	1,667	269	242	1,026	-153	395	-136	1,162
991	886	1,037	1,320	1,176	732	588	561	614
1,171	2,553	1,306	1,562	2,202	579	983	425	1,776
1,385	-131	541	1,134	577	550	584	161	416
109	130	17	53	84	149	-96	193	-109
2,665	2,552	1,864	2,749	2,863	1,278	1,470	779	2,084
94	90	86	1	123	8	-7	34	89
563	621	276	253	242	171	82	90	153
657	711	362	254	365	179	75	124	242
38	-7	74	39	-33	-96	135	-69	36
695	704	436	293	332	83	210	55	277

## APPENDIX

NET NEW ISSUES OF SECURITIES<sup>(1)</sup>

(millions of dollars)

	Payable in Canadian Dollars Only				
	1958	1959	1960	1961	1962
Government of Canada securities <sup>(2)</sup>					
Total.....	1,253	871	613	944	705
Held in Government Accounts.....	—110	—206	—57	—165	26
Held outside Government Accounts.....	1,363	1,077	670	1,109	679
Provincial, municipal and corporate and other securities					
Provincial bonds <sup>(3)</sup> .....	470	328	460	931 <sup>(4)</sup>	567
Municipal bonds <sup>(3)</sup> .....	228	164	198	224	193
Corporate bonds.....	473	89	301	208	189
Other bonds <sup>(4)</sup> .....	4	18	21	28	—4
Total bonds.....	1,175	599	979	1,391	945
Finance company short-term paper <sup>(5)</sup> .....	—111	135	10	—67	70
Total bonds and short-term paper.....	1,065	734	989	1,323	1,016
Corporate stocks <sup>(6)</sup>					
Preferred.....	25	72	37	—62 <sup>(7)</sup>	68
Common.....	285	330	178	301 <sup>(8)</sup>	186
Total corporate stocks.....	310	402	215	239	254
Total provincial, municipal and corporate and other securities.....	1,375	1,136	1,204	1,562	1,270
Total Government of Canada securities held outside Government accounts, provincial, municipal, and corporate and other securities.....	2,738	2,214	1,875	2,671	1,949

(1) Gross new issues less retirements.

(2) Includes guaranteed securities.

(3) Includes the new issue of \$104 million of bonds guaranteed by B.C. in exchange for preferred stock of B.C. Electric Co.

(4) Consists of bonds of religious and other institutions and Canadian dollar issues of the Commonwealth of Australia.

(5) Paper with an original term to maturity of one year or less.

(6) Canadian stock issues with dividends payable in U.S. dollars are shown under "Other Currencies".

(7) Includes the retirement of \$104 million of preferred stock referred to in footnote (3).

(8) After deducting the distribution of \$86 million to shareholders of B.C. Power Corp.

Payable in Other Currencies					Total				
1958	1959	1960	1961	1962	1958	1959	1960	1961	1962
-2	-149	-1	-55	96	1,252	723	612	890	801
1	-129	-	-56	-	-109	-335	-57	-221	26
-3	-19	-1	2	96	1,360	1,058	669	1,111	775
144	239	17	5	102	614	568	477	935 <sup>(3)</sup>	669
115	113	85	-16	22	343	277	283	208	215
187	15	-4	110	126	660	104	296	318	315
-	-	-	-	2	4	18	21	28	-2
446	367	99	98	252	1,621	966	1,078	1,489	1,198
-	-	-	-	-	-111	135	10	-67	70
446	367	99	98	252	1,511	1,101	1,088	1,422	1,268
-	-	-	-	-	25	72	37	-62 <sup>(7)</sup>	68
2	2	5	10	-	287	331	183	311 <sup>(8)</sup>	186
2	2	5	10	-	312	404	220	249	254
448	368	104	108	252	1,823	1,505	1,308	1,670	1,522
445	349	103	110	349	3,183	2,563	1,977	2,781	2,298

## APPENDIX

**BANK OF CANADA NOTE LIABILITIES**

(as at December 31st — thousands of dollars)

Notes issued by the Bank of Canada	<u>1950</u>	<u>1953</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>
\$1.....	50,273	78,402	81,733	86,114	91,426
2.....	37,279	55,076	57,622	60,640	63,837
5.....	111,731	144,702	149,545	156,501	162,643
10.....	429,886	521,309	519,559	533,041	548,442
20.....	346,060	647,276	676,549	719,713	766,974
25.....	47	46	46	46	46
50.....	108,735	145,461	147,596	152,106	155,938
100.....	254,457	395,383	396,328	407,307	413,460
500.....	160	46	41	38	37
1,000.....	11,489	19,549	19,547	18,198	17,951
 Total.....	 1,350,117	 2,007,250	 2,048,567	 2,133,704	 2,220,755
 Chartered banks' notes*.....	 12,487	 8,519	 8,423	 8,363	 8,314
Dominion of Canada notes*.....	4,702	4,641	4,638	4,637	4,637
Provincial notes*.....	28	28	28	28	28
Defunct banks' notes*.....	88	88	88	88	88
 Total Bank of Canada note liabilities.....	 <u>1,367,422</u>	 <u>2,020,525</u>	 <u>2,061,743</u>	 <u>2,146,820</u>	 <u>2,233,822</u>
 Held by:					
Chartered banks.....	231,306	315,703	329,841	346,630	416,845
Others.....	<u>1,136,116</u>	<u>1,704,822</u>	<u>1,731,902</u>	<u>1,800,190</u>	<u>1,816,977</u>

\*These are note issues which are in the process of being retired and the liability for them has been taken over by the Bank of Canada from the original issuers.

**BANK OF CANADA STATEMENT OF INCOME AND EXPENSES**

(thousands of dollars)

	<u>1962</u>	<u>1961</u>
<b>Income</b>		
On investments.....	\$105,156	\$116,391
All other income.....	1,751	958
 Total income.....	<u>\$106,907</u>	<u>\$117,349</u>
 <b>Operating Expenses</b>		
Salaries <sup>(1)</sup> .....	\$ 3,679	\$ 3,567
Contributions to pension and insurance funds.....	325	315
Other staff expenses <sup>(2)</sup> .....	182	156
Directors' fees.....	25	24
Auditors' fees and expenses.....	70	75
Taxes (inc. municipal and business).....	813	749
RCMP guards and electric protection.....	110	109
Insurance.....	90	81
Bank notes — production and shipment.....	3,051	2,863
Premises and equipment (net).....	353	251
Stationery and printing.....	173	131
Publications <sup>(3)</sup> .....	67	66
Postage and express.....	148	136
Telephones and telegrams.....	173	165
Travel and transfer expense.....	109	101
Interest paid on unclaimed balances.....	53	49
All other expenses.....	68	70
 Total operating expenses.....	<u>\$ 9,489</u>	<u>\$ 8,908</u>
 <b>Depreciation on Buildings and Equipment</b>	<u>738</u>	<u>748</u>
 <b>Net Income Paid to Receiver General of Canada</b>	<u>96,680</u>	<u>107,693</u>
 <u><u>\$106,907</u></u>	<u><u>\$117,349</u></u>	

(1) The number of staff averaged 840 in 1962 and 815 in 1961.

(2) Includes overtime pay, medical services and cafeteria expense.

(3) Printing of Statistical Summary and Annual Report.

# BANK OF CANADA • STATEMENT

## ASSETS

	<u>1962</u>	<u>1961</u>
<b>Foreign exchange*</b>		
Pounds sterling and U.S.A. dollars.....	\$ 47,226,572	\$ 44,633,333
Other currencies.....	178,805	212,467
	<hr/>	<hr/>
	<u>\$ 47,405,377</u>	<u>\$ 44,845,800</u>
<b>Cheques on other banks.....</b>	<u>\$ 39,009,504</u>	<u>\$ 194,682,834</u>
<b>Accrued interest on investments.....</b>	<u>\$ 28,444,567</u>	<u>\$ 26,604,309</u>
<b>Bills bought in open market not including treasury bills.....</b>	<u>\$ 3,294,808</u>	
	<hr/>	
<b>Investments — at amortized values</b>		
Treasury bills of Canada.....	\$ 455,220,636	\$ 312,159,070
Other securities issued or guaranteed by Canada maturing within two years.....	446,559,216	513,922,548
Other securities issued or guaranteed by Canada not maturing within two years.....	1,980,762,718	1,999,571,699
Debentures issued by Industrial Development Bank.....	127,145,248	88,007,223
Other securities — U.S.A. Government*.....	25,745,293	24,956,836
	<hr/>	<hr/>
	<u>\$3,035,433,111</u>	<u>\$2,938,617,376</u>
<b>Industrial Development Bank</b>		
Total issued share capital at cost.....	<u>\$ 31,000,000</u>	<u>\$ 27,000,000</u>
	<hr/>	<hr/>
<b>Bank premises</b>		
Land, buildings and equipment		
Cost less accumulated depreciation.....	<u>\$ 10,681,591</u>	<u>\$ 10,583,188</u>
	<hr/>	<hr/>
<b>Net balance of Government of Canada collections and payments in process of settlement.....</b>	<u>\$ 35,224,593</u>	
	<hr/>	
<b>Other assets.....</b>	<u>\$ 601,422</u>	<u>\$ 566,732</u>
	<hr/>	<hr/>
	<u>\$3,231,094,973</u>	<u>\$3,242,900,239</u>
	<hr/>	<hr/>

\*Foreign currencies converted to Canadian dollars at year-end closing rates.

L. RASMINSKY, Governor  
Ottawa, January 30, 1963.

A. J. NORTON, Chief Accountant

## OF ASSETS AND LIABILITIES

AS AT DECEMBER 31, 1962

(with comparative figures at December 31, 1961)

### LIABILITIES

	<u>1962</u>	<u>1961</u>
<b>Capital paid up.....</b>	\$ 5,000,000	\$ 5,000,000
<b>Reserve fund.....</b>	\$ 25,000,000	\$ 25,000,000
<b>Notes in circulation.....</b>	<u>\$2,233,822,132</u>	<u>\$2,146,820,122</u>
 <b>Deposits</b>		
Government of Canada.....	\$ 42,890,041	\$ 41,443,054
Chartered banks.....	745,569,810	749,430,167
Other.....	38,075,970	33,384,837
	<u>\$ 826,535,821</u>	<u>\$ 824,258,058</u>
 <b>Liabilities payable in pounds sterling, U.S.A. dollars and other foreign currencies*</b>		
To Government of Canada.....	\$ 48,431,106	\$ 45,086,763
To others.....	12,704,056	13,942,970
	<u>\$ 61,135,162</u>	<u>\$ 59,029,733</u>
<b>Bank of Canada cheques outstanding.....</b>	<u>\$ 78,637,241</u>	<u>\$ 177,700,599</u>
 <b>Net balance of Government of Canada collections and payments in process of settlement.....</b>		<u>\$ 3,359,727</u>
 <b>Other liabilities.....</b>	<u>\$ 964,617</u>	<u>\$ 1,732,000</u>
	<u><u>\$3,231,094,973</u></u>	<u><u>\$3,242,900,239</u></u>

**Auditors' Report** • We have made an examination of the statement of assets and liabilities of the Bank of Canada as at December 31, 1962 and have received all the information and explanations we have required. We report that, in our opinion, the above statement correctly sets forth the position of the Bank at December 31, 1962 according to the best of our information and as shown by the books of the Bank.

W. R. Kay, F.C.A.  
of Fred Page Higgins & Company

J. H. RENÉ de COTRET, C.A.  
of René de Cotret, Ferron, Nobert & Cie

## Board of Directors



L. RASMINSKY, C.B.E.     *OTTAWA*  
*Governor*  
*Member of the Executive Committee*

J. R. BEATTIE     *OTTAWA*  
*Deputy Governor*  
*Member of the Executive Committee*

A. C. ASHFORTH     *TORONTO, ONT.*

H. BARIBEAU     *LEVIS, QUE.*

N. H. DEBLOIS     *CHARLOTTETOWN, P.E.I.*

R. W. DEWOLFE     *WOLFVILLE, N.S.*

FREDERICK FIELD, F.C.A.     *VANCOUVER, B.C.*

C. HEDLEY FORBES     *FREDERICTON, N.B.*

C. BRUCE HILL, M.C.     *ST. CATHARINES, ONT.*  
*Member of the Executive Committee*

S. N. MACEACHERN     *SASKATOON, SASK.*

J. R. OUIMET     *MONTREAL, QUE.*

L. PATRICK, C.B.E.     *CALGARY, ALTA.*

W. S. PERLIN     *ST. JOHN'S, NFLD.*

D. SPRAGUE, C.A.     *WINNIPEG, MAN.*



## EX-OFFICIO

K. W. TAYLOR, C.B.E.     *OTTAWA*  
*Deputy Minister of Finance*  
*Member of the Executive Committee*

## Officers

L. RASMINSKY, C.B.E., *Governor* J. R. BEATTIE, *Deputy Governor*  
L. P. SAINT-AMOUR, *Deputy Governor*  
R. B. MCKIBBIN, *Deputy Governor*  
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